

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
CITY OF PORT HURON, MICHIGAN
DEPARTMENT OF FINANCE

For the Fiscal Year Ended June 30, 2007

CITY COUNCIL

Alan D. Cutcher - Mayor

James M. Fisher

Tim McCulloch

David Haynes

B. Mark Neal

Sally A. Jacobs

Laurie Sample-Wynn

KARL S. TOMION - City Manager

DEPARTMENT OF FINANCE

JOHN H. OGDEN, C.P.A. - Director

E. P. Brennan, C.P.A. - Controller - Purchasing Agent

M. A. Dempsey - Treasurer - Water Office Supervisor

R. S. Fernandez - Assessor

E. J. Laratonda, C.P.A. - Income Tax Administrator

City of Port Huron
Comprehensive Annual Financial Report
Year Ended June 30, 2007

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November 15, 2007

Honorable Mayor and City Council
City of Port Huron
Port Huron, Michigan

We are pleased to present the Comprehensive Annual Financial Report of the City of Port Huron, Michigan for the fiscal year ended June 30, 2007. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants within six months of the close of each fiscal year. Pursuant to the requirement, we hereby issue the comprehensive annual financial report of the City of Port Huron for the fiscal year ended June 30, 2007. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association.

This report consists of management's representations concerning the finances of the City of Port Huron. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Port Huron has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Port Huron's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Port Huron's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Port Huron's financial statements have been audited by Plante & Moran, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Port Huron for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Port Huron's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Single Audit Section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Port Huron's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The City of Port Huron, incorporated in 1857, is located in southeastern Michigan, on the western shore of Lake Huron where it flows into the St. Clair River. The City of Port Huron occupies a land area of approximately eight square miles and serves a population of 32,338.

The City of Port Huron is operated under the council-manager form of government. Policy-making and legislative authority are vested in City Council, consisting of seven members, one of whom is selected as the mayor. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve two year terms, with all seven council members elected every two years.

The City of Port Huron provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; sanitation services and recreational activities and cultural events. The City's parks include three and a half miles of public water frontage with two beaches on Lake Huron, four large parks and parkways along the St. Clair River and marina facilities on the Black River. The City provides water distribution and wastewater collection services for its residents and for portions of five surrounding communities, serving a population in excess of 60,000.

The annual budget serves as the foundation for the City of Port Huron's financial planning and control. State law requires the City Manager to develop a proposed budget. The City Charter requires that the proposed budget be presented to the City Council for review at the second April council meeting. The council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Port Huron's fiscal year. The budget is prepared by fund and function (e.g., public safety) with supporting detail by activity or department (e.g., police). Department heads may make transfers of appropriations within a department. Authority to make transfers of appropriations between departments is given to the City Manager. Transfers between funds or changes in spending at the fund level require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental

fund for which an appropriated annual budget has been adopted. For the general fund and the major special revenue funds, this comparison is presented starting on page 38 as part of the basic financial statements for the governmental fund financial statements. This comparison is presented in the combining and individual fund subsection of this report, which starts on page 84, for governmental funds with appropriated annual budgets other than the general fund and the major special revenue funds.

ECONOMIC CONDITION AND OUTLOOK

Port Huron is one of only three ports of entry into Canada from the state, via the International Blue Water Bridge. As a result of the completion of the interstate highway systems on both sides of the border, the expansion of the Blue Water Bridge and the Free Trade Agreement between the United States and Canada, we have experienced and anticipate even greater trade and tourism activity for our community. Currently the Blue Water Bridge is the second busiest Ontario commercial crossing and the fourth busiest overall Ontario crossing. Based upon recently available statistics, on an average day, approximately 6,000 commercial and 9,000 passenger vehicles travel across the twin spans. Total annual bridge traffic is 5.5 million vehicles. Port Huron is also within the just-in-time service radius of Detroit and Flint which has contributed to the addition of new auto related industries in our industrial park.

The City has a varied manufacturing, industrial and commercial base and is the county seat. The downtown area includes the administrative and court facilities for St. Clair County. The St. Clair County Community College and the regional medical facilities of the Port Huron and Mercy Hospitals are also within the City. The City's population has been relatively stable at 32,000. However, the metropolitan area, which is served by the City and its employers, is now over 80,000, increasing the City's commercial and employment base. The City is also home to McMorran Place, a theater and arena complex. The Port Huron Museum currently has four major facilities; the Carnegie Center; the retired Coast Guard lightship, the Huron; the retired Coast Guard cutter, the Bramble; the Thomas Edison Depot Museum and a variety of other maritime attractions. The City is also expected to acquire the historic Fort Gratiot Lighthouse, the oldest Great Lakes lighthouse, and the surrounding buildings and park area from the federal government, which has recently completed a new Coast Guard facility in the City.

A local investor and philanthropist has created an investment venture which has acquired over seventy acres of former railroad and other property in the southern downtown area of the City along the St. Clair River, including the Seaway Terminal formerly owned by the City. The venture intends to develop over a mile of river front property. Plans include a waterfront park and commercial and residential development. The stated goal of the venture is to facilitate change, by formulating a redevelopment plan that will mark the beginning of a long-term strategy to improve the way people live, work and play in Port Huron and in the surrounding region.

The City is continuing a major construction initiative to upgrade streets, water distribution and sanitary and storm sewers. In accordance with the Michigan Department of Environmental Quality requirements, this process will include reducing combined sewer overflows (CSO's). It is particularly important that the major construction projects be constantly monitored with regard to costs, quality, public safety and convenience. On

September 24, 2007, City Council adopted a budget amendment for the fiscal year ending June 30, 2008, and reviewed a comprehensive financial plan for the next five to ten years, both to address CSO funding. As a part of the plan, water and sewer revenues and expenses were projected for each of the five years through the fiscal year ending June 30, 2012. City service levels have been adjusted to provide additional resources to fund the CSO infrastructure projects.

The City of Port Huron's police department became an accredited police agency through meeting the rigorous standards of the Commission on Accreditation of Law Enforcement Agencies (CALEA) in 1995 and was reaccredited in 1998, 2001, 2004 and 2007. Port Huron was the third municipality in Michigan to receive this honor. In 2000 the Port Huron Fire Department also became accredited through the Commission on Fire Accreditation International, the first municipality in Michigan to be so honored. The Fire Department was reaccredited in 2007. Port Huron remains the only municipality in Michigan to have both an accredited police department and fire department.

In 2005, Port Huron was named a winner of the "All America City" award by the National Civic League. Only 10 cities nation-wide are selected to be honored with this designation. The All America City award recognizes civic excellence and is bestowed upon communities in which citizens, government, businesses and nonprofit organizations demonstrate successful resolution of community challenges and issues. Port Huron was recognized, in part, because of the variety of partnerships working together to make a dramatic difference in our neighborhoods, downtown and in projects that have benefited our young people.

In 2004, the City of Port Huron was recognized by the State of Michigan as a Cool City. The Cool City pilot program is designed to help communities across the State create vibrant, attractive places for people to live, work and play. As a part of the program, the State recognized the partnership efforts of the City, the Downtown Development Authority, the local Community Foundation and other Foundations and interested groups to develop an arts incubator building by awarding a catalyst grant to rehabilitate the building which will provide a creative center for the visual and performing arts. The arts incubator building, Studio 1219, celebrated its second anniversary in the fall of 2007, marking two years of successful operations, including two retail operations that relocated to their own storefronts.

In 2005, the City of Port Huron received the Thomas Edison Business Award. The annual award is administered by the Port Huron Hospital Foundation and is based on the Human Resources criteria from the Malcolm Baldrige National Quality Award Program and the Michigan Quality Leadership Award. The Port Huron Hospital Foundation Business and Professional Committee developed a program to annually recognize businesses that create an exceptional work environment for their employees and encourage individual work and life balance. The City's personnel department was honored for its many efforts to recognize employees as the City's most valuable asset, a direct link to the community and an integral part of the City's success. The City of Port Huron was selected for a national second place award presented by the U.S. Environmental Protection Agency's (EPA) 2004 National Clean Water Act Recognition Award in the Combined Sewer Overflow (CSO) Control Program category. The Michigan Department of Environmental Quality (MDEQ) nominated the City for the outstanding implementation of the CSO program. The MDEQ nomination stated that the City's CSO program is being implemented in an efficient and effective manner and should be recognized nationally. Only two cities were recognized for

this honor. The Michigan Water Environment Association recognized the City's Utilities Manager as the 2006 recipient of the Public Utility Management Professional of the Year Award.

The City's administrative employees pride themselves on remaining current in their fields through education, training and participation in state and national organizations.

MAJOR INITIATIVES

Providing job opportunities and maintaining our population are key factors that will determine the economic future of Port Huron. The City has served as the catalyst in these areas and promoted economic development to attain these goals. Several major developments have occurred or are in progress which will enhance our future and include:

- The continuing concentrated effort to revitalize streets made possible with voter approval of a two mill property tax levy for ten years (renewed by the citizens in May, 2004 for another ten years).
- Continued operation of the City's industrial park to facilitate additional manufacturing sites and employment opportunities.
- Construction of industrial speculative buildings enabling the City to respond to an immediate need of a manufacturing operator through a lease/purchase commitment, when necessary. During the fiscal year ended June 30, 2006, the City purchased two existing buildings located in the industrial park. One building was leased to a new business. The second building was resold during the current year to an existing manufacturer in the industrial park needing to expand to another facility.
- The completion of the development of River Centre which includes nineteen condominiums along the banks of the Black River, newly constructed medical offices and surgical facilities (with a third addition in 2006) and a new administrative and financial services building for a local credit union which opened in February, 2007.

The City's involvement in these major economic development projects will not only be rewarded through additional job opportunities and increased population, but will expand our financial resources. However, the increased cost of maintaining services, and the retrenchment of state and federal programs will provide a challenge worthy of our best efforts to maintain our history of financial integrity.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City of Port Huron participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual

contribution that the City of Port Huron must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Port Huron fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City of Port Huron's conservative funding policy, the City of Port Huron has succeeded as of December 31, 2006, the date of the most recent actuarial report, in funding 84.6 percent of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 29 years as part of the annual required contribution calculated by the actuary.

The City of Port Huron also provides post-retirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 255 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Generally Accepted Accounting Principals (GAAP) do not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City of Port Huron's pension arrangements and post-employment benefits can be found in Notes L and M in the notes to the financial statements.

OTHER INFORMATION

Cash Management - Investment of Funds - Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, obligations of the U.S. Treasury and government pooled investment accounts. The permanent fund's investment portfolios also include corporate bonds and stocks.

The City administers a cash management and investment program to maximize the amount of cash available, both to meet daily cash requirements and to increase the amount available for investments, and to earn the maximum financial return on available funds. The City takes full advantage of temporary idle funds which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, are combined to form a pool of cash for investment. Such funds were primarily invested in government pooled investment accounts. For the fiscal year ended June 30, 2007, the average twelve month interest rate was 4.87% compared to an average treasury rate of approximately 4.83% for the same period. The City also took advantage of other available bank investments, where the average twelve month rate for the banks was 4.90%. Investment income was \$1,657,250 for the governmental funds. The Enterprise and Internal Service Funds had investment income of \$873,039 and \$615,296, respectively.

Risk Management - The City has entered into a joint powers agreement with other Michigan units of government for joining the Michigan Municipal Risk Management Authority for its general liability insurance, including auto and public official liability. The City has also provided for worker's compensation claims within the Fringe Benefit Fund with third party coverage for claims above \$250,000. Property damage insurance is provided through third party coverage.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Port Huron for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the thirty-second consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

In closing, we also thank the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Karl S. Tomion
City Manager



John H. Ogden, C.P.A.
Director of Finance

JHO/da

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Port Huron
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in cursive script, reading "Ronald J. Blum".

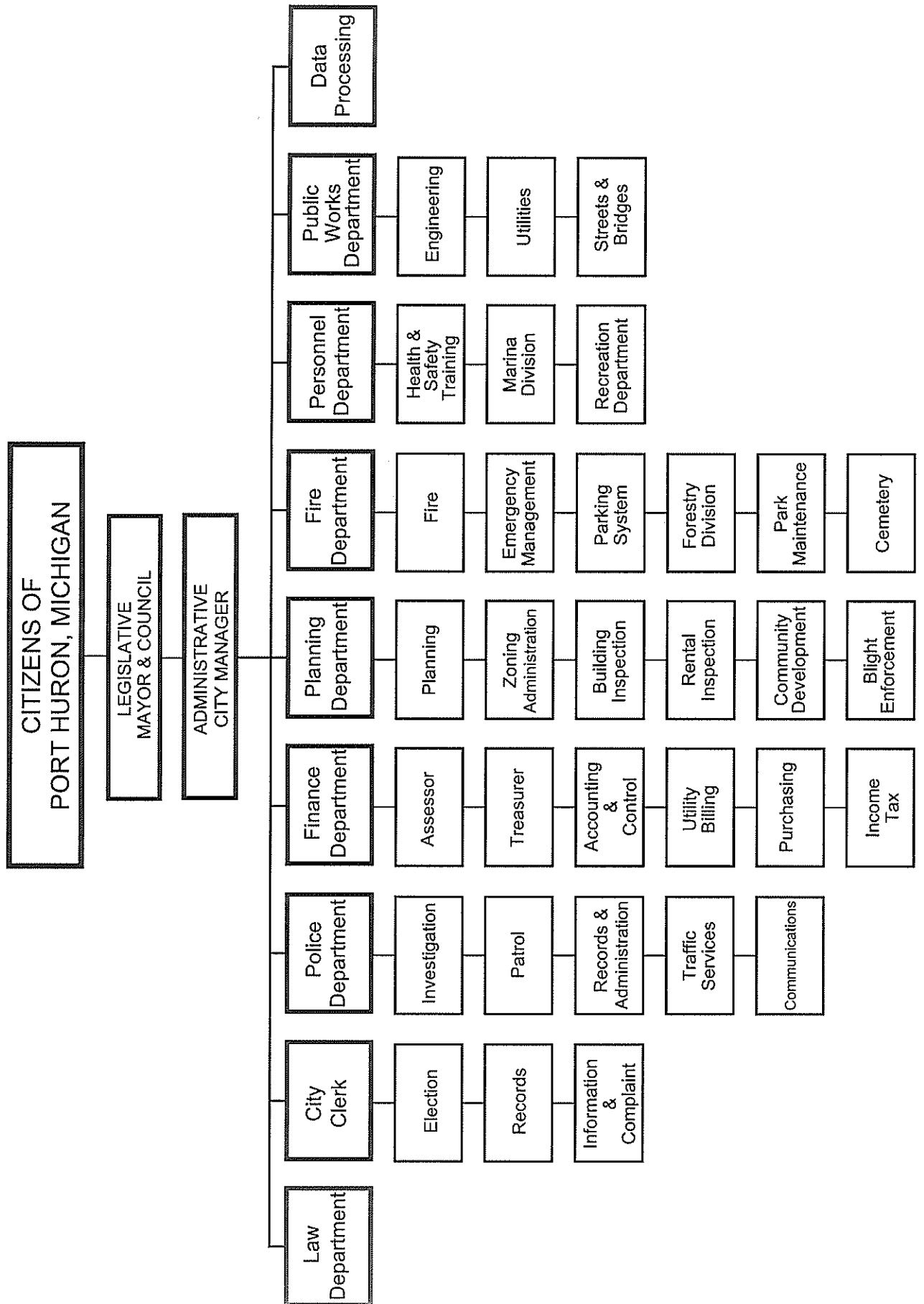
President

A handwritten signature in cursive script, reading "Jeffrey R. Emer".

Executive Director

ORGANIZATIONAL CHART

PORT HURON CITY GOVERNMENT



FINANCIAL SECTION

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Port Huron, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Port Huron, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. The partial prior year summarized comparative information has been derived from the City's June 30, 2006 financial statements and, in our report dated September 29, 2006 we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and major Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members
of the City Council
City of Port Huron, Michigan

The financial statements include partial prior year summarized comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2006, from which such partial summarized information was derived.

The management's discussion and analysis and retirement system schedule of funding progress, as listed in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Port Huron, Michigan's basic financial statements. The accompanying combining and individual fund statements and schedules section and discretely presented governmental component units section, as identified in the table of contents, are not required parts of the basic financial statements but are presented for the purpose of additional analysis. The combining and individual fund statements and schedules section and discretely presented governmental component units section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moreau, PLLC

November 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

As management of the City of Port Huron, we offer readers of the City of Port Huron's financial statements this narrative overview and analysis of the financial activities of the City of Port Huron for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5 - 11 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Port Huron exceeded its liabilities at the close of the most recent fiscal year by \$155,276,883 (net assets). Of this amount, \$42,465,278 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,929,602. This increase is primarily the result of increased net investments in infrastructure and of accumulating funds within the internal service funds to provide for post-employment healthcare costs.
- As of the close of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of \$19,217,440, a decrease of \$12,194 in comparison with the prior year. Approximately 70 percent of this total amount, \$13,488,444, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$4,093,971, or 17.9 percent of total general fund expenditures and transfers.
- The City of Port Huron's total debt increased by \$1,725,919 (1.7 percent) during the current fiscal year. The key factors in this increase were the continuing separation of combined sewers and the related infrastructure improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Port Huron's basic financial statements. The City of Port Huron's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City of Port Huron's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Port Huron's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Port Huron is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Port Huron that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Port Huron include general government, public safety, public works (highways and streets, rubbish and garbage collection, and other services), health and welfare, community and economic development and recreation, parks and culture. The business-type activities of the City of Port Huron include a regional water distribution system, regional wastewater collection system, parking, senior citizens housing, marinas and land purchase and economic development.

The government-wide financial statements include not only the City of Port Huron itself (known as the primary government), but also legally separate entities for which the primary government is financially accountable. The Henry McMorran Memorial Auditorium Authority is reported as a discretely presented business-type component unit. The Downtown Development Authority, Tax Increment Finance Authority, Local Development Finance Authority and Brownfield Redevelopment Authority are reported as discretely presented governmental component units. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 27 through 29 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Port Huron, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Port Huron can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Port Huron maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the major, local and municipal streets funds, all of which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Port Huron adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been provided for the general fund and the major, local and municipal streets funds to demonstrate compliance with this budget, within the basic financial statements. The budgetary comparison statements for the other governmental funds are provided elsewhere in this report.

The basic governmental fund financial statements can be found on pages 30 through 43 of this report.

PROPRIETARY FUNDS

The City of Port Huron maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Port Huron uses enterprise funds to account for water distribution, wastewater collection, parking, senior citizens housing, marina and land purchase and economic development. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Port Huron's various functions. The City of Port Huron uses internal service funds to account for central office supply stores, motor vehicle pool and fleet operations, data processing services and insurance and employee fringe benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater and land purchase funds, which are considered to be major funds of the City of Port Huron. Conversely, the remaining enterprise funds and the internal service funds are each combined into a single, aggregated presentation in the proprietary fund financial statements.

Individual fund data for the remaining enterprise funds and the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 44 through 51 of this report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Port Huron's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 52 and 53 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 58 through 76 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Port Huron's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 78 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 79 through 108 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Huron, assets exceeded liabilities by \$155,276,883 at the close of the most recent fiscal year.

By far the largest portion of the City of Port Huron's net assets (67.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Port Huron uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Port Huron's investment in its capital assets is reported net of related debt, (if applicable) it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF PORT HURON'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 43,408,849	\$ 40,985,925	\$ 19,810,327	\$ 22,968,999	\$ 63,219,176	\$ 63,954,924
Capital assets	<u>39,143,574</u>	<u>37,917,205</u>	<u>169,632,260</u>	<u>164,736,554</u>	<u>208,775,834</u>	<u>202,653,759</u>
Total assets	<u>82,552,423</u>	<u>78,903,130</u>	<u>189,442,587</u>	<u>187,705,553</u>	<u>271,995,010</u>	<u>266,608,683</u>
Noncurrent and deferred liabilities	5,745,584	6,351,023	103,809,666	101,690,238	109,555,250	108,041,261
Other liabilities	<u>5,464,387</u>	<u>5,308,558</u>	<u>1,698,490</u>	<u>1,911,583</u>	<u>7,162,877</u>	<u>7,220,141</u>
Total liabilities	<u>11,209,971</u>	<u>11,659,581</u>	<u>105,508,156</u>	<u>103,601,821</u>	<u>116,718,127</u>	<u>115,261,402</u>
Net assets:						
Invested in capital assets, net of related debt	39,143,574	37,917,205	65,911,126	62,988,238	105,054,700	100,905,443
Restricted	7,756,905	8,395,407		1,135,607	7,756,905	9,531,014
Unrestricted	<u>24,441,973</u>	<u>20,930,937</u>	<u>18,023,305</u>	<u>19,979,887</u>	<u>42,465,278</u>	<u>40,910,824</u>
Total net assets	<u>\$ 71,342,452</u>	<u>\$ 67,243,549</u>	<u>\$ 83,934,431</u>	<u>\$ 84,103,732</u>	<u>\$ 155,276,883</u>	<u>\$ 151,347,281</u>

An additional portion of the City of Port Huron's net assets (5.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$42,465,278) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Port Huron is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as its separate governmental and business-type activities. The situation held true for the prior fiscal year (except for the marina fund, which had negative unrestricted net assets).

The City of Port Huron's net assets increased by \$3,929,602 during the current fiscal year. This increase primarily represents increased net investment in infrastructure and accumulating funds within the internal service funds to provide for post-employment health care costs.

CITY OF PORT HURON'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 3,464,092	\$ 4,382,384	\$ 15,889,448	\$15,701,570	\$ 19,353,540	\$ 20,083,954
Operating grants and contributions	4,113,900	3,816,261	2,401,331	1,687,353	6,515,231	5,503,614
Capital grants and contributions	2,207,793	2,286,181	1,247,135	1,185,048	3,454,928	3,471,229
General revenues:						
Property taxes	12,214,363	11,863,700			12,214,363	11,863,700
Income taxes	6,404,789	6,142,537			6,404,789	6,142,537
State shared revenue	3,979,187	4,101,722			3,979,187	4,101,722
Gain on sale of capital assets	18,176	4,074	362,734		380,910	4,074
Investment income	2,272,546	1,209,797	873,039	851,667	3,145,585	2,061,464
Other	391,798	306,531	5,070	10,000	396,868	316,531
Total revenues	<u>35,066,644</u>	<u>34,113,187</u>	<u>20,778,757</u>	<u>19,435,638</u>	<u>55,845,401</u>	<u>53,548,825</u>
Expenses:						
General government	3,294,266	4,352,715			3,294,266	4,352,715
Public safety	12,775,838	12,870,592			12,775,838	12,870,592
Public works	8,822,339	8,033,049			8,822,339	8,033,049
Health and welfare	17,851	18,171			17,851	18,171
Community and economic development	2,396,732	2,111,966			2,396,732	2,111,966
Recreation, parks and culture	2,628,408	2,922,958			2,628,408	2,922,958
Water			6,296,545	6,143,152	6,296,545	6,143,152
Wastewater			13,269,918	12,852,702	13,269,918	12,852,702
Land purchase			193,013	833,578	193,013	833,578
Parking			185,541	202,593	185,541	202,593
Senior citizens			889,992	866,645	889,992	866,645
Marina			813,049	1,004,366	813,049	1,004,366
Total expenses	<u>29,935,434</u>	<u>30,309,451</u>	<u>21,648,058</u>	<u>21,903,036</u>	<u>51,583,492</u>	<u>52,212,487</u>
Increase (decrease) in net assets before transfers	5,131,210	3,803,736	(869,301)	(2,467,398)	4,261,909	1,336,338
Special item – custodial capital transfer	(332,307)				(332,307)	
Transfers	<u>(700,000)</u>	<u>(250,000)</u>	<u>700,000</u>	<u>250,000</u>		
Increase (decrease) in net assets	4,098,903	3,553,736	(169,301)	(2,217,398)	3,929,602	1,336,338
Net assets - beginning of year	<u>67,243,549</u>	<u>63,689,813</u>	<u>84,103,732</u>	<u>86,321,130</u>	<u>151,347,281</u>	<u>150,010,943</u>
Net assets - end of year	<u>\$71,342,452</u>	<u>\$67,243,549</u>	<u>\$83,934,431</u>	<u>\$84,103,732</u>	<u>\$155,276,883</u>	<u>\$151,347,281</u>

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City of Port Huron's net assets by \$4,098,903, thereby offsetting a decline of \$169,301 in the net assets related to business-type activities. A summary of the changes follows:

- Property taxes increased by \$350,663 (3.0 percent) during the year, primarily the result of new investment and increases in taxable value up to the annual state limitation (3.3 percent).
- Income tax revenues increased by \$262,252 (4.3 percent), due to reductions in the personal exemption amount and to increases in local economic activity.
- State revenue sharing payments decreased by \$122,535 primarily due to state budget balancing efforts.
- Operating grants and contributions increased by \$297,639, primarily due to an increase in development grant activity.
- Capital grants and contributions decreased by \$78,388, primarily due to a decrease in grants available to purchase public safety equipment.
- Investment income increased by \$1,062,749, primarily due to improvements in investment rates and in the net increase in the fair value of investments in the Cemetery Perpetual Care Fund.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

BUSINESS-TYPE ACTIVITIES

Business-type activities decreased the City of Port Huron's net assets by \$169,301. Key elements affecting business-type activities are as follows:

- Charges for services increased by \$187,878 (1.2 percent) during the year. The increase was primarily due to rate adjustments.
- Operating grants and contributions increased \$713,978 during the year. Most of this increase was the result of higher payments from component units.
- Capital grants and contributions increased \$62,087 during the year, a change of 5.2%. The increase was primarily the result of infrastructure assets donated to the City and grants received to improve wastewater infrastructure.
- Increases in operating expenses closely paralleled inflation approved budgetary amounts and growth in demand for services.
- Increases in operating expenses for Water and Wastewater are also due to increased debt service as a result of the continuing separation of combined sewers and the related infrastructure improvements.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Port Huron uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

GOVERNMENTAL FUNDS

The focus of the City of Port Huron's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Port Huron's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of \$19,217,440, a decrease of \$12,194 in comparison with the prior year. Of this amount, 70.2 percent (\$13,488,444) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to generate income to pay for the perpetual care of the municipal cemetery (\$5,500,407), or 2) for a variety of other restricted purposes (\$228,589).

The general fund is the chief operating fund of the City of Port Huron. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,093,971, while total fund balance reached \$4,099,104. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17.91 percent of total general fund expenditures, while total fund balance represents 17.93 percent of that same amount.

The fund balance of the City of Port Huron's general fund increased by \$197,520 during the current fiscal year. Key factors in the change in fund balance are as follows:

- Income tax revenue increased by 4.3% as a result of reductions in the personal exemption amount and to increases in local economic activity. Current year property tax revenues increased by 3.4%, slightly higher than the State of Michigan annual limitation of 3.3%. Other property tax related revenue, primarily delinquent taxes, penalties and interest, decreased by \$27,804. Overall tax revenue increased by \$498,837.
- State shared revenues declined by \$38,205 as a result of the current State economic conditions.
- Grants decreased by \$342,365 primarily due to grants received in the prior year for fire and other public safety equipment.
- Total revenues increased by \$497,082 or 2.2%. The overall revenue increase is primarily due to increases in local economic activity.
- General government expenditures increased by \$194,565, primarily due to scheduled maintenance and repairs to the Municipal Office Center.
- Public safety expenditures decreased by \$81,708, primarily due to reductions in grant expenditures and to changes in personnel scheduling in the Fire Department.
- Recreation, parks and culture decreased by \$140,789 primarily due to changes in work assignments in parks and forestry.
- In the aggregate, general fund expenditures decreased by \$232,000 or 1.0% primarily as a result of reducing total personnel and controlling costs. The decreased costs allowed a transfer to the Wastewater Fund to mitigate rate increases.

The City of Port Huron maintains three special revenue funds (Major Streets, Local Streets and Municipal Streets) that account for the maintenance and construction of the City's street system. The Major Streets and Local Streets Funds have been established to account for the various state shared and other revenues relating to the repairs and maintenance of major streets and state trunklines and local streets, respectively. The Municipal Streets Fund has been established to account for property taxes levied for street construction and major maintenance and the Blue Water Area Transportation Commission and for various other revenues related to construction activities. Funds are transferred to the Major and Local Streets Funds as are necessary for construction activities.

At the end of the current fiscal year, the combined unreserved fund balances of the three funds was \$7,081,190, a decrease of \$513,590 during the fiscal year, as a result of the budgeted use of fund balance for engineering costs related to the rebuilding of the 7th Street Bridge. Key factors in the change in activity are as follows:

- Property tax revenues for street improvements increased by 2.9% due to investment and valuation increases.
- State shared revenues declined by \$20,731 as a result of the current State economic conditions.
- Public works expenses increased by 8.4% primarily as a result of increased street maintenance costs.

The Municipal Streets Fund unreserved fund balance of \$6,659,109 has a portion designated for subsequent years' expenditures (\$1,678,082) primarily as a result of the planned rebuilding of the 7th Street bascule bridge. The remaining unreserved fund balance is expected to be used for continuing infrastructure projects.

PROPRIETARY FUNDS

The City of Port Huron's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year for the Water Fund were \$5,279,874, unrestricted net assets for the Wastewater Fund were \$3,229,076 and unrestricted net assets for the Land Purchase Fund were \$8,311,025. The total change in net assets for the Water, Wastewater Funds and Land Purchase Fund was \$(296,987), \$(110,639) and \$(593,292), respectively, with the losses primarily due to depreciation and, for Land Purchase, transfers out. Unrestricted net assets for the Water and Wastewater Funds decreased by \$87,794 and \$3,120,324. Unrestricted net assets for the Land Purchase Fund increased by \$412,771. The decreases for the Water and Wastewater Funds were primarily the result of capital asset acquisitions and debt repayments. The increase for the Land Purchase Fund was primarily the result of the sale of an industrial building. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Port Huron's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were minimal, primarily related to the revenue increases discussed above and to provide minor budgeting adjustments

However, revenues were higher than the budgetary estimates and expenditures were less than budgetary estimates, which allowed for a post year end transfer to the Wastewater Fund of \$700,000. Prior year end transfers have resulted in \$1,400,000 available at June 30, 2007, for future capital purchases and significant maintenance and repair items. There was also an increase in the General Fund unreserved fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Port Huron's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$208,775,834 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges and sidewalks. The total increase in the City of Port Huron's investment in capital assets for the current fiscal year was \$6,122,075 (a 3.2 percent increase for governmental activities and a 3.0 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A variety of sewer separation and infrastructure improvements continued; construction in progress as of the end of the current fiscal year was approximately \$2.4 million for streets and \$3.9 and \$8.9 million for water and wastewater, respectively.
- Various building and system additions and improvements were also completed and the City's structured replacement of vehicles continued.

CITY OF PORT HURON'S CAPITAL ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 4,260,209	\$ 4,260,209	\$ 5,586,973	\$ 5,586,973	\$ 9,847,182	\$ 9,847,182
Construction in progress	2,431,328	1,549,885	12,802,992	14,045,217	15,234,320	15,595,102
Land improvements	9,332,495	9,902,241	854,297	859,022	10,186,792	10,761,263
Buildings	10,378,699	10,377,847	39,448,557	40,006,873	49,827,256	50,384,720
Machinery and equipment	8,882,341	8,224,688	13,830,385	13,872,988	22,712,726	22,097,676
Vehicles	2,794,803	3,351,985			2,794,803	3,351,985
Infrastructure	<u>46,112,239</u>	<u>44,343,818</u>	<u>161,010,876</u>	<u>148,865,302</u>	<u>207,123,115</u>	<u>193,209,120</u>
Total	\$ 84,192,114	\$ 82,010,673	\$ 233,534,080	\$ 223,236,375	\$ 317,726,194	\$ 305,247,048
Less accumulated depreciation	<u>45,048,540</u>	<u>44,093,468</u>	<u>63,901,820</u>	<u>58,499,821</u>	<u>108,950,360</u>	<u>102,593,289</u>
Total	<u>\$ 39,143,574</u>	<u>\$ 37,917,205</u>	<u>\$ 169,632,260</u>	<u>\$ 164,736,554</u>	<u>\$ 208,775,834</u>	<u>\$ 202,653,759</u>

Additional information on the City of Port Huron's capital assets can be found in note F on pages 67 and 68 of this report.

LONG-TERM DEBT

At the end of the current fiscal year, the City of Port Huron had total bonded debt outstanding of \$103,721,134. Of this amount \$93,376,241 comprises debt backed by the full faith and credit of the government. The remainder of the City of Port Huron's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

CITY OF PORT HURON'S OUTSTANDING DEBT General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$	\$	\$ 93,376,241	\$ 91,240,606	\$ 93,376,241	\$ 91,240,606
Revenue bonds			10,344,893	10,754,609	10,344,893	10,754,609
Total	<u>\$</u>	<u>\$</u>	<u>\$ 103,721,134</u>	<u>\$ 101,995,215</u>	<u>\$ 103,721,134</u>	<u>\$ 101,995,215</u>

The City of Port Huron's total debt increased by \$1,725,919 (1.7 percent) during the current fiscal year. The key factor in this increase was the continuing combined sewer separation and infrastructure improvement projects.

In the fall of 2005 the City of Port Huron received an increase in its bond rating from Fitch for general obligation debt from an "A" rating to an "A+" rating. The "A+" rating was reaffirmed during 2007.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Currently, 10 percent of assessed valuation is \$91,798,940. After considering applicable borrowings, the current remaining legal debt margin for the City of Port Huron is \$69,320,320. Debt issued as a result of an order, which would include \$70,897,621 of the City of Port Huron's outstanding general obligation debt listed above, is excluded from the debt limitation calculation.

Additional information on the City's long-term debt can be found in note H on pages 68 through 72 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- As of September 30, 2007, the unemployment rate for the City of Port Huron was 12.0 percent, an increase from a rate of 9.9 percent the year before. This compares to the county's average unemployment rate of 8.5 percent, the state's average unemployment rate of 7.5 percent and the national average rate of 4.5 percent.
- The occupancy rate of the government's central business district has decreased over the past year partially due to the largest retail location remaining closed. The new office building that was completed and occupied during a prior year as the cornerstone of the Desmond Landing project located on the St. Clair River in the southern downtown area has seen expanded use as its fourth floor has been occupied.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Port Huron's budget for the 2007/2008 fiscal year.

During the current fiscal year, unreserved fund balance in the Municipal Street Fund decreased to \$6.7 million. The City of Port Huron has appropriated \$1.7 million of this amount for spending in the 2007/2008 fiscal year budget. It is intended that this use of available fund balance will allow for the reconstruction of the 7th Street Bridge beginning in June, 2007, as the City has qualified for significant grant funds. It also is intended to obviate the need for the transfer of additional resources to the Municipal Street Fund, as has occurred in the past.

Both the Water and Wastewater Funds' rates were increased for the 2007/2008 budget year, which will affect both residential and industrial consumers. The rate increases were necessary as a result of operating cost increases and to finance debt service on continuing infrastructure projects.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the City of Port Huron's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, 100 McMorran Boulevard, Port Huron, Michigan 48060.

City of Port Huron

STATEMENT OF NET ASSETS

June 30, 2007

EXHIBIT A

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 26,969,241	\$ 14,653,707	\$ 41,622,948	\$ 1,986,873
Investments	9,154,142		9,154,142	
Receivables (net of allowances for uncollectibles)	4,638,392	3,618,211	8,256,603	29,146
Due from other governmental units	2,279,621	356,591	2,636,212	
Inventories	362,320	81,808	444,128	8,875
Prepaid and deferred items	5,133	1,100,010	1,105,143	7,726
Restricted assets (cash and cash equivalents)				265,487
Capital assets:				
Non-depreciable (land and construction in progress)	6,691,537	18,389,965	25,081,502	25,000
Depreciable property and equipment (net of accumulated depreciation)	32,452,037	151,242,295	183,694,332	2,498,270
Total Assets	82,552,423	189,442,587	271,995,010	4,821,377
LIABILITIES				
Liabilities:				
Accounts payable	680,269	159,148	839,417	538,614
Accrued payroll	952,862	115,460	1,068,322	111,426
Contracts payable	2,503,928	390,175	2,894,103	
Taxes collected in advance	314,808		314,808	
Accrued interest payable		819,206	819,206	
Other liabilities	59,185	214,501	273,686	44,582
Claims and judgements payable	953,335		953,335	
Unearned revenue	2,977,271	88,532	3,065,803	265,487
Noncurrent liabilities:				
Due within one year	410,795	5,572,937	5,983,732	
Due in more than one year	2,357,518	98,148,197	100,505,715	
Total Liabilities	11,209,971	105,508,156	116,718,127	960,109
NET ASSETS				
Invested in capital assets, net of related debt	39,143,574	65,911,126	105,054,700	2,523,270
Restricted for street improvements	275,130		275,130	
Restricted for law enforcement	649,171		649,171	
Restricted for rubbish and garbage collection	1,332,197		1,332,197	
Restricted for nonexpendable endowments	5,500,407		5,500,407	
Unrestricted	24,441,973	18,023,305	42,465,278	1,337,998
Net Assets	\$ 71,342,452	\$ 83,934,431	\$ 155,276,883	\$ 3,861,268

The notes to the financial statements are an integral part of this statement.

City of Port Huron

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

EXHIBIT A-1

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,294,266	\$ 1,636,600	\$	\$
Public safety	12,775,838	673,556	89,077	532,389
Public works	8,822,339	246,799	2,570,537	1,547,572
Health and welfare	17,851			
Community and economic development	2,396,732	723,750	1,454,286	
Recreation, parks and culture	2,628,408	183,387		127,832
Total governmental activities	<u>29,935,434</u>	<u>3,464,092</u>	<u>4,113,900</u>	<u>2,207,793</u>
Business-type activities:				
Water	6,296,545	5,601,863		107,153
Wastewater	13,269,918	8,942,423		1,139,982
Land purchase	193,013	307,432	1,893,862	
Parking	185,541	188,225		
Senior citizens	889,992	377,665	439,507	
Marina	813,049	471,840	67,962	
Total business-type activities	<u>21,648,058</u>	<u>15,889,448</u>	<u>2,401,331</u>	<u>1,247,135</u>
Total primary government	<u>\$ 51,583,492</u>	<u>\$ 19,353,540</u>	<u>\$ 6,515,231</u>	<u>\$ 3,454,928</u>
Component units:				
Downtown development	\$ 1,564,257	\$	\$	\$
Tax increment finance	2,878,823			
Local development finance	235,471			
Brownfield redevelopment	379,123			
McMorran	2,503,600	1,723,608	335,000	308,443
Total component units	<u>\$ 7,561,274</u>	<u>\$ 1,723,608</u>	<u>\$ 335,000</u>	<u>\$ 308,443</u>
General revenues:				
Property taxes				
Income tax				
Unrestricted state-shared revenues				
Unrestricted investment income				
Gain on sale of capital assets				
Unrestricted cable fees and other income				
Special item - custodial capital transfer				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
NET ASSETS AT END OF YEAR				

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Totals	Component Units
\$ (1,657,666)	\$	\$ (1,657,666)	\$
(11,480,816)		(11,480,816)	
(4,457,431)		(4,457,431)	
(17,851)		(17,851)	
(218,696)		(218,696)	
(2,317,189)		(2,317,189)	
(20,149,649)		(20,149,649)	
	(587,529)	(587,529)	
	(3,187,513)	(3,187,513)	
	2,008,281	2,008,281	
	2,684	2,684	
	(72,820)	(72,820)	
	(273,247)	(273,247)	
	(2,110,144)	(2,110,144)	
\$ (20,149,649)	\$ (2,110,144)	\$ (22,259,793)	\$ 0
\$	\$	\$	\$ (1,564,257)
			(2,878,823)
			(235,471)
			(379,123)
			(136,549)
\$ 0	\$ 0	\$ 0	\$ (5,194,223)
\$ 12,214,363	\$	\$ 12,214,363	\$ 4,575,554
6,404,789		6,404,789	
3,979,187		3,979,187	4,011
2,272,546	873,039	3,145,585	6,509
18,176	362,734	380,910	
391,798	5,070	396,868	545,332
(332,307)		(332,307)	
(700,000)	700,000		
24,248,552	1,940,843	26,189,395	5,131,406
4,098,903	(169,301)	3,929,602	(62,817)
67,243,549	84,103,732	151,347,281	3,924,085
\$ 71,342,452	\$ 83,934,431	\$ 155,276,883	\$ 3,861,268

City of Port Huron

**BALANCE SHEET -
GOVERNMENTAL FUNDS**
June 30, 2007

EXHIBIT A-2

	General	Major Streets	Local Streets	Municipal Streets
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,082,708	\$ 192,159	\$ 114,434	\$ 6,937,896
Investments	2,000,000			2,000,000
Receivables (net of allowances for uncollectibles)	1,414,091			12,516
Due from other governmental units	707,702	183,314	43,108	
Due from other funds				
Inventories				223,456
Prepaid and deferred items	5,133			
Total Assets	<u>\$ 5,209,634</u>	<u>\$ 375,473</u>	<u>\$ 157,542</u>	<u>\$ 9,173,868</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 468,320	\$ 2,230	\$ 418	\$ 4,854
Accrued payroll	341,138	15,204	4,497	12,906
Contracts payable	79,900	88,585		2,234,717
Taxes collected in advance	221,172			38,826
Due to other funds				
Unearned revenue				
Other liabilities				
Total Liabilities	<u>1,110,530</u>	<u>106,019</u>	<u>4,915</u>	<u>2,291,303</u>
Fund balances:				
Reserved for inventories				223,456
Reserved for prepaid items	5,133			
Reserved for endowments				
Unreserved:				
Designated for subsequent years' expenditures:				
Special Revenue Funds		2,113	18,900	1,678,082
Undesignated:				
General Fund	4,093,971			
Special Revenue Funds		267,341	133,727	4,981,027
Permanent Funds				
Total Fund Balances	<u>4,099,104</u>	<u>269,454</u>	<u>152,627</u>	<u>6,882,565</u>
Total Liabilities And Fund Balances	<u>\$ 5,209,634</u>	<u>\$ 375,473</u>	<u>\$ 157,542</u>	<u>\$ 9,173,868</u>

The notes to the financial statements are an integral part of this statement.

Other Nonmajor Governmental Funds	Total Governmental Funds	
	June 30, 2007	June 30, 2006
\$ 2,726,022	\$ 11,053,219	\$ 8,846,975
5,154,142	9,154,142	11,070,502
3,022,497	4,449,104	4,461,817
274,797	1,208,921	1,429,852
122,749	122,749	210,367
	223,456	201,587
	5,133	5,728
<u>\$ 11,300,207</u>	<u>\$ 26,216,724</u>	<u>\$ 26,226,828</u>
\$ 155,129	\$ 630,951	\$ 653,684
17,697	391,442	411,067
99,676	2,502,878	2,393,598
54,810	314,808	144,680
122,749	122,749	210,367
2,977,271	2,977,271	3,130,028
59,185	59,185	53,770
<u>3,486,517</u>	<u>6,999,284</u>	<u>6,997,194</u>
	223,456	201,587
	5,133	5,728
5,500,407	5,500,407	5,191,744
126,381	1,825,476	3,314,821
	4,093,971	3,895,856
2,186,902	7,568,997	6,499,126
		120,772
<u>7,813,690</u>	<u>19,217,440</u>	<u>19,229,634</u>
<u>\$ 11,300,207</u>	<u>\$ 26,216,724</u>	<u>\$ 26,226,828</u>

City of Port Huron

**RECONCILIATION OF FUND BALANCES TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS**

June 30, 2007

EXHIBIT A-3

Total fund balances for governmental funds	\$ 19,217,440
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	37,269,057
Certain amounts due from other governmental units are expected to be collected during the next fiscal year, however, these amounts are not available to pay for current year expenditures	919,420
Internal Service Funds are included as part of governmental activities	<u>13,936,535</u>
Net assets of governmental activities	<u>\$ 71,342,452</u>

The notes to the financial statements are an integral part of this statement.

City of Port Huron

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2007

EXHIBIT A-4

	General Fund	Major Streets	Local Streets
Revenues:			
Taxes	\$ 14,691,337	\$	\$
Licenses and permits	736,935		
Grants	118,329	1,036,147	
State shared revenues	4,057,053	2,009,109	564,696
Charges for services	604,229		
Fines and forfeits	211,878		
Investment income	588,283		
Rents	251,090		
Sale of property	6,943		
Other income	75,000		
Administrative charges	1,720,005		
Total Revenues	<u>23,061,082</u>	<u>3,045,256</u>	<u>564,696</u>
Expenditures:			
Current:			
General government	3,885,773		
Public safety	13,260,316		
Public works	1,608,249	1,699,412	975,482
Senior citizens	17,851		
Recreation, parks and culture	2,776,161		
General support services	404,841		
Capital outlay	3,071	2,885,294	203,523
Total Expenditures	<u>21,956,262</u>	<u>4,584,706</u>	<u>1,179,005</u>
Revenues over (under) Expenditures	<u>1,104,820</u>	<u>(1,539,450)</u>	<u>(614,309)</u>
Other financing sources (uses):			
Transfers in		1,975,000	612,317
Transfers out	(907,300)	(437,317)	
	<u>(907,300)</u>	<u>1,537,683</u>	<u>612,317</u>
Special item:			
Custodial capital transfer			
Net Change in Fund Balances	197,520	(1,767)	(1,992)
Fund balances at beginning of year	3,901,584	271,221	154,619
FUND BALANCES AT END OF YEAR	<u>\$ 4,099,104</u>	<u>\$ 269,454</u>	<u>\$ 152,627</u>

The notes to the financial statements are an integral part of this statement.

Municipal Streets	Other Nonmajor Governmental Funds	Total Governmental Funds	
		June 30, 2007	June 30, 2006
\$ 1,892,879	\$ 2,034,936	\$ 18,619,152	\$ 18,006,237
		736,935	764,635
	1,957,423	3,111,899	3,418,137
		6,630,858	6,689,794
	812,090	1,416,319	1,533,599
		211,878	203,515
321,142	747,825	1,657,250	822,544
		251,090	240,776
		6,943	1,044
		75,000	
		1,720,005	1,616,251
<u>2,214,021</u>	<u>5,552,274</u>	<u>34,437,329</u>	<u>33,296,532</u>
		3,885,773	3,691,208
	268,638	13,528,954	13,750,871
103,788	2,542,769	6,929,700	6,517,340
		17,851	18,171
		2,776,161	2,916,950
448,195	437,130	1,290,166	1,365,483
	1,896,723	4,988,611	4,156,366
<u>551,983</u>	<u>5,145,260</u>	<u>33,417,216</u>	<u>32,416,389</u>
<u>1,662,038</u>	<u>407,014</u>	<u>1,020,113</u>	<u>880,143</u>
	471,057	3,058,374	2,004,731
(2,150,000)	(263,757)	(3,758,374)	(2,254,731)
<u>(2,150,000)</u>	<u>207,300</u>	<u>(700,000)</u>	<u>(250,000)</u>
	(332,307)	(332,307)	
(487,962)	282,007	(12,194)	630,143
<u>7,370,527</u>	<u>7,531,683</u>	<u>19,229,634</u>	<u>18,599,491</u>
<u>\$ 6,882,565</u>	<u>\$ 7,813,690</u>	<u>\$ 19,217,440</u>	<u>\$ 19,229,634</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2007

EXHIBIT A-5

Net changes in fund balances - total governmental funds	\$ (12,194)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay expenditures	4,065,833
Depreciation expense	(3,153,194)
Revenue is reported in the statement of activities at the time it is earned without regard to timeliness of collection	(81,134)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds	511,425
Internal Service Funds are included as part of governmental activities	<u>2,768,167</u>
Change in net assets of governmental activities	<u>\$ 4,098,903</u>

The notes to the financial statements are an integral part of this statement.

City of Port Huron

**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

Year Ended June 30, 2007

EXHIBIT A-6

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2006 Actual
Revenues:					
Taxes:					
Real property taxes	\$ 6,830,000	\$ 6,830,000	\$ 6,839,265	\$ 9,265	\$ 6,541,188
Personal property taxes	1,240,000	1,240,000	1,242,784	2,784	1,276,472
Income tax	6,350,000	6,400,000	6,404,789	4,789	6,142,537
Other	255,000	255,000	204,499	(50,501)	232,303
	<u>14,675,000</u>	<u>14,725,000</u>	<u>14,691,337</u>	<u>(33,663)</u>	<u>14,192,500</u>
Business licenses and permits:					
Cable television	285,000	285,000	298,337	13,337	287,423
Other	18,000	18,000	18,461	461	19,108
	<u>303,000</u>	<u>303,000</u>	<u>316,798</u>	<u>13,798</u>	<u>306,531</u>
Nonbusiness licenses and permits:					
Building	200,000	250,000	249,132	(868)	271,142
Electrical	50,000	60,000	55,154	(4,846)	73,276
Heating	60,000	70,000	66,538	(3,462)	66,803
Plumbing	30,000	40,000	41,728	1,728	39,916
Other	5,000	5,000	7,585	2,585	6,967
	<u>345,000</u>	<u>425,000</u>	<u>420,137</u>	<u>(4,863)</u>	<u>458,104</u>
Grants		90,000	118,329	28,329	460,694
State shared revenues	4,178,000	4,078,000	4,057,053	(20,947)	4,095,258
Charges for services:					
Recreation fees	159,000	159,000	183,387	24,387	123,254
Blue Water Bridge reimbursement	200,000	200,000	200,000		200,000
County parks millage	122,000	122,000	127,832	5,832	122,626
Other	114,500	114,500	93,010	(21,490)	98,005
	<u>595,500</u>	<u>595,500</u>	<u>604,229</u>	<u>8,729</u>	<u>543,885</u>
Fines and forfeits:					
Parking violations	100,000	100,000	98,761	(1,239)	86,140
Ordinance fines	115,000	115,000	113,117	(1,883)	117,375
	<u>215,000</u>	<u>215,000</u>	<u>211,878</u>	<u>(3,122)</u>	<u>203,515</u>
Investment income	450,000	575,000	588,283	13,283	445,442
Rents	215,000	240,000	251,090	11,090	240,776
Sale of property and equipment	3,000	23,000	6,943	(16,057)	1,044
Other income	80,000	40,000	75,000	35,000	

(Continued on next page)

City of Port Huron

**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**
Year Ended June 30, 2007

EXHIBIT A-6
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2006 Actual
Charges to other funds:					
Garbage and rubbish collection fund	\$ 101,235	\$ 101,235	\$ 101,235	\$	\$ 88,644
Marina fund	56,021	56,021	56,021		51,227
Senior citizen housing fund	63,816	63,816	63,816		58,837
Parking fund	19,831	19,831	19,831		17,475
Water fund	574,167	574,167	574,167		575,898
Wastewater fund	578,665	578,665	578,665		517,224
Central stores fund	15,040	15,040	15,040		15,756
Data processing fund	95,282	95,282	95,282		93,459
Motor vehicle fund	215,948	215,948	215,948		197,731
	<u>1,720,005</u>	<u>1,720,005</u>	<u>1,720,005</u>		<u>1,616,251</u>
Total Revenues	22,779,505	23,029,505	23,061,082	31,577	22,564,000
Expenditures:					
Current:					
General government:					
City council	110,228	110,228	92,757	17,471	91,682
City manager	315,866	346,866	346,632	234	570,166
Elections	84,737	85,737	85,520	217	61,549
Finance and accounting	661,417	656,417	656,188	229	597,068
Income tax	311,007	306,007	298,561	7,446	278,775
Assessor	421,180	426,180	420,717	5,463	386,363
Legal counsel	304,878	284,878	271,267	13,611	262,592
Clerk	246,533	246,533	245,560	973	237,246
Personnel	318,121	313,121	303,149	9,972	303,430
Purchasing	41,516	41,516	41,189	327	37,855
Board of review	2,450	2,450	2,322	128	2,341
Treasurer	209,619	204,619	202,413	2,206	187,628
Municipal office center	582,920	891,920	891,609	311	640,094
Promotional	23,600	28,600	27,889	711	34,419
	<u>3,634,072</u>	<u>3,945,072</u>	<u>3,885,773</u>	<u>59,299</u>	<u>3,691,208</u>
Public safety:					
Police administration	1,049,814	1,049,814	1,011,501	38,313	943,337
Detectives	938,029	969,029	968,236	793	1,046,388
Patrol	5,216,882	4,941,882	4,940,745	1,137	5,022,490
Communications	783,305	794,305	793,526	779	726,268
Fire	5,466,563	5,481,563	5,481,288	275	5,369,093
Fire - Equipment grant		66,000	65,020	980	234,448
	<u>13,454,593</u>	<u>13,302,593</u>	<u>13,260,316</u>	<u>42,277</u>	<u>13,342,024</u>
Public works:					
Inspection	377,150	337,150	334,720	2,430	361,690
Emergency management	23,216	18,216	17,130	1,086	9,191
Public works administration	208,976	208,976	206,874	2,102	198,430
Engineering	413,125	228,125	223,614	4,511	264,360
Street lighting	712,429	702,429	698,308	4,121	695,115
Blight	118,595	128,595	127,603	992	125,702
	<u>1,853,491</u>	<u>1,623,491</u>	<u>1,608,249</u>	<u>15,242</u>	<u>1,654,488</u>
Senior citizens:					
Discounts for senior citizens	7,000	7,000	3,348	3,652	3,163
Senior citizens transportation	15,148	15,148	14,503	645	15,008
	<u>22,148</u>	<u>22,148</u>	<u>17,851</u>	<u>4,297</u>	<u>18,171</u>

(Continued on next page)

City of Port Huron

**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**
Year Ended June 30, 2007

EXHIBIT A-6
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2006 Actual
Recreation, parks and culture:					
Parks and forestry	\$ 1,274,869	\$ 1,159,869	\$ 1,156,092	\$ 3,777	\$ 1,345,431
Recreation	663,646	638,646	635,643	3,003	646,331
20th and Court pool	105,565	105,565	101,315	4,250	104,428
Sanborn pool	122,643	133,643	133,337	306	122,926
Lighthouse park	66,392	51,392	50,830	562	48,480
Lakeside park	76,992	66,992	62,829	4,163	69,630
Palmer park recreation center	122,019	125,019	124,047	972	112,780
Lightship	12,581	29,581	29,421	160	10,203
McMorran complex	335,000	335,000	335,000		335,000
Library	8,000	8,000	8,000		8,000
Museum	119,536	140,536	139,647	889	112,241
Fine arts					1,500
	<u>2,907,243</u>	<u>2,794,243</u>	<u>2,776,161</u>	<u>18,082</u>	<u>2,916,950</u>
General support services:					
Planning	237,723	269,723	269,290	433	213,004
Telephone service	36,276	26,276	24,006	2,270	34,915
Contingencies	50,000				
Insurance, health and safety	332,659	112,659	110,938	1,721	238,476
Taxes written off	15,000	5,000	449	4,551	717
Demolitions	15,000	5,000	158	4,842	
Other - DDA	12,000	12,000		12,000	
	<u>698,658</u>	<u>430,658</u>	<u>404,841</u>	<u>25,817</u>	<u>487,112</u>
Capital outlay	152,000	4,000	3,071	929	78,309
Total Expenditures	<u>22,722,205</u>	<u>22,122,205</u>	<u>21,956,262</u>	<u>165,943</u>	<u>22,188,262</u>
Revenues over (under) Expenditures	<u>57,300</u>	<u>907,300</u>	<u>1,104,820</u>	<u>197,520</u>	<u>375,738</u>
Other financing sources (uses):					
Transfers out:					
Special revenue funds:					
Cemetery Operating	(54,000)	(204,000)	(204,000)		(45,000)
Beautification Commission	(3,300)	(3,300)	(3,300)		(8,300)
Enterprise funds:					
Land purchase					(250,000)
Wastewater		(700,000)	(700,000)		
	<u>(57,300)</u>	<u>(907,300)</u>	<u>(907,300)</u>		<u>(303,300)</u>
Net Change in Fund Balance			197,520	197,520	72,438
Fund balance at beginning of year	<u>3,901,584</u>	<u>3,901,584</u>	<u>3,901,584</u>		<u>3,829,146</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,901,584</u>	<u>\$ 3,901,584</u>	<u>\$ 4,099,104</u>	<u>\$ 197,520</u>	<u>\$ 3,901,584</u>

The notes to the financial statements are an integral part of this statement.

NOTE - The budget detail presented above at the activity level is not the budget approved by the City Council. The legally adopted budget is at the functional level.

**MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
Year Ended June 30, 2007

EXHIBIT A-7

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2006 Actual
MAJOR STREETS:					
Revenues:					
Grants	\$ 1,300,000	\$ 1,300,000	\$ 1,036,147	\$ (263,853)	\$ 836,753
State shared revenues	2,145,322	2,145,322	2,009,109	(136,213)	2,022,216
Total Revenues	<u>3,445,322</u>	<u>3,445,322</u>	<u>3,045,256</u>	<u>(400,066)</u>	<u>2,858,969</u>
Expenditures:					
Current:					
Public works	2,060,820	2,060,820	1,699,412	361,408	1,628,361
Capital outlay	3,835,000	3,835,000	2,885,294	949,706	1,404,175
Total Expenditures	<u>5,895,820</u>	<u>5,895,820</u>	<u>4,584,706</u>	<u>1,311,114</u>	<u>3,032,536</u>
Revenues over (under) Expenditures	(2,450,498)	(2,450,498)	(1,539,450)	911,048	(173,567)
Other financing sources (uses):					
Transfers in	2,900,000	2,900,000	1,975,000	(925,000)	600,000
Transfers out	(470,000)	(470,000)	(437,317)	32,683	(443,264)
	<u>2,430,000</u>	<u>2,430,000</u>	<u>1,537,683</u>	<u>(892,317)</u>	<u>156,736</u>
Net Change in Fund Balances	(20,498)	(20,498)	(1,767)	18,731	(16,831)
Fund balance at beginning of year	<u>271,221</u>	<u>271,221</u>	<u>271,221</u>		<u>288,052</u>
FUND BALANCE AT END OF YEAR	<u>\$ 250,723</u>	<u>\$ 250,723</u>	<u>\$ 269,454</u>	<u>\$ 18,731</u>	<u>\$ 271,221</u>
LOCAL STREETS:					
Revenues:					
State shared revenues	\$ 565,000	\$ 565,000	\$ 564,696	\$ (304)	\$ 572,320
Total Revenues	<u>565,000</u>	<u>565,000</u>	<u>564,696</u>	<u>(304)</u>	<u>572,320</u>
Expenditures:					
Current:					
Public works	1,084,329	1,084,329	975,482	108,847	867,182
Capital outlay	1,625,000	1,625,000	203,523	1,421,477	775,021
Total Expenditures	<u>2,709,329</u>	<u>2,709,329</u>	<u>1,179,005</u>	<u>1,530,324</u>	<u>1,642,203</u>
Revenues over (under) Expenditures	(2,144,329)	(2,144,329)	(614,309)	1,530,020	(1,069,883)
Other financing sources:					
Transfers in	2,120,000	2,120,000	612,317	(1,507,683)	(1,093,264)
Net Change in Fund Balances	(24,329)	(24,329)	(1,992)	22,337	23,381
Fund balance at beginning of year	<u>154,619</u>	<u>154,619</u>	<u>154,619</u>		<u>131,238</u>
FUND BALANCE AT END OF YEAR	<u>\$ 130,290</u>	<u>\$ 130,290</u>	<u>\$ 152,627</u>	<u>\$ 22,337</u>	<u>\$ 154,619</u>

(Continued on next page)

City of Port Huron

**MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
Year Ended June 30, 2007

EXHIBIT A-7
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2006 Actual
MUNICIPAL STREETS:					
Revenues:					
Taxes - Streets	\$ 1,430,000	\$ 1,430,000	\$ 1,444,684	\$ 14,684	\$ 1,401,182
Taxes - BWATC	440,000	440,000	448,195	8,195	438,891
Investment income	75,000	75,000	321,142	246,142	256,117
Total Revenues	<u>1,945,000</u>	<u>1,945,000</u>	<u>2,214,021</u>	<u>269,021</u>	<u>2,096,190</u>
Expenditures:					
Current:					
Public works	117,189	107,189	103,788	3,401	68,831
General support services - BWATC	440,000	450,000	448,195	1,805	438,891
Capital Outlay	3,650	3,650		3,650	
Total Expenditures	<u>560,839</u>	<u>560,839</u>	<u>551,983</u>	<u>8,856</u>	<u>507,722</u>
Revenues over (under) Expenditures	1,384,161	1,384,161	1,662,038	277,877	1,588,468
Other financing sources (uses):					
Transfers out	<u>(4,550,000)</u>	<u>(4,550,000)</u>	<u>(2,150,000)</u>	<u>2,400,000</u>	<u>(1,250,000)</u>
Net Change in Fund Balances	(3,165,839)	(3,165,839)	(487,962)	2,677,877	338,468
Fund balance at beginning of year	<u>7,370,527</u>	<u>7,370,527</u>	<u>7,370,527</u>		<u>7,032,059</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,204,688</u>	<u>\$ 4,204,688</u>	<u>\$ 6,882,565</u>	<u>\$ 2,677,877</u>	<u>\$ 7,370,527</u>

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS - STATEMENT OF NET ASSETS

June 30, 2007

EXHIBIT A-8

ASSETS	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Current assets:			
Cash and cash equivalents	\$ 4,187,503	\$ 915,751	\$ 8,341,485
Restricted cash and cash equivalents			
Accounts receivable (net of allowances for uncollectibles)	1,473,328	2,113,570	1,607
Due from other governmental units		288,629	
Due from other funds			
Inventories	17,507	26,736	
Prepaid items			
Total Current Assets	5,678,338	3,344,686	8,343,092
Noncurrent assets:			
Restricted cash and cash equivalents			
Capital assets:			
Land	799,823	631,745	1,775,512
Land improvements			
Buildings	4,918,187	25,666,106	2,876,984
Systems	47,728,810	113,282,066	
Machinery and equipment		11,263,897	
Vehicles			
Construction in progress	3,921,024	8,881,968	
	57,367,844	159,725,782	4,652,496
Less accumulated depreciation	12,121,189	44,071,251	607,955
Total Capital Assets	45,246,655	115,654,531	4,044,541
Other noncurrent assets:			
Bond issuance costs (net of amortization)	446,756	585,974	
Total Noncurrent Assets	45,693,411	116,240,505	4,044,541
Total Assets	51,371,749	119,585,191	12,387,633
LIABILITIES			
Current liabilities:			
Accounts payable	62,871	39,664	17
Accrued payroll	49,943	57,438	240
Claims and judgements payable			
Contracts payable	325,980	30,953	
Due to other funds			
Accrued interest payable	245,677	573,529	
Accrued interest payable from restricted assets			
Unearned revenue			
Other liabilities	160,749		31,810
Current portion of long-term debt	1,814,644	3,758,293	
Current portion of long-term debt payable from restricted assets			
Compensated absences payable (current portion)			
Total Current Liabilities	2,659,864	4,459,877	32,067
Noncurrent liabilities:			
Long-term debt (exclusive of current portion)	31,008,869	67,139,328	
Compensated absences payable (exclusive of current portion)			
Total Noncurrent Liabilities	31,008,869	67,139,328	
Total Liabilities	33,668,733	71,599,205	32,067
NET ASSETS			
Invested in capital assets, net of related debt	12,423,142	44,756,910	4,044,541
Restricted for revenue bond redemption and reserve account			
Unrestricted (deficit)	5,279,874	3,229,076	8,311,025
Total Net Assets	\$ 17,703,016	\$ 47,985,986	\$ 12,355,566

The notes to the financial statements are an integral part of this statement.

Enterprise Funds			Governmental Activities - Internal Service Funds		
Other Nonmajor Enterprise Funds	Totals		Totals		
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	
\$ 1,208,968	\$ 14,653,707	\$ 17,145,758 476,235	\$ 15,916,022	\$ 13,611,772	
29,706	3,618,211	3,438,186	189,288	202,642	
67,962	356,591		151,280		
		629,047			
37,565	81,808	80,901	138,864	154,496	
67,280	67,280	69,952			
1,411,481	18,777,597	21,840,079	16,395,454	13,968,910	
		906,271			
2,379,893	5,586,973	5,586,973			
854,297	854,297	859,022	1,347,382	1,370,559	
5,987,280	39,448,557	40,006,873			
	161,010,876	148,865,302			
2,566,488	13,830,385	13,872,988	628,658	722,444	
			2,019,540	2,515,224	
	12,802,992	14,045,217			
11,787,958	233,534,080	223,236,375	3,995,580	4,608,227	
7,101,425	63,901,820	58,499,821	2,121,063	2,536,015	
4,686,533	169,632,260	164,736,554	1,874,517	2,072,212	
	1,032,730	851,696			
4,686,533	170,664,990	166,494,521	1,874,517	2,072,212	
6,098,014	189,442,587	188,334,600	18,269,971	16,041,122	
56,596	159,148	184,608	49,318	42,158	
7,839	115,460	112,125	561,420	519,653	
			953,335	1,089,948	
33,242	390,175	236,118	1,050		
		629,047			
	819,206	715,537			
		76,235			
88,532	88,532	95,023			
21,942	214,501	186,960			
	5,572,937	4,724,061			
		400,000			
			410,795	495,615	
208,151	7,359,959	7,359,714	1,975,918	2,147,374	
	98,148,197	96,871,154			
			2,357,518	2,725,380	
	98,148,197	96,871,154	2,357,518	2,725,380	
208,151	105,508,156	104,230,868	4,333,436	4,872,754	
4,686,533	65,911,126	62,988,238	1,874,517	2,072,212	
		1,135,607			
1,203,330	18,023,305	19,979,887	12,062,018	9,096,156	
\$ 5,889,863	\$ 83,934,431	\$ 84,103,732	\$ 13,936,535	\$ 11,168,368	

City of Port Huron

**PROPRIETARY FUNDS - STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS**
Year Ended June 30, 2007

EXHIBIT A-9

Business-Type Activities -			
	Water	Wastewater	Land Purchase
Operating revenues:			
Charges for services	\$ 5,601,863	\$ 8,942,423	\$
Rents			307,432
Total Operating Revenues	5,601,863	8,942,423	307,432
Operating expenses:			
Personal services	2,008,562	3,121,585	13,076
Supplies and materials	338,116	611,455	60
Contractual services	1,496,309	3,471,344	101,159
Depreciation	1,449,894	3,812,848	78,718
Total Operating Expenses	5,292,881	11,017,232	193,013
Operating Income (Loss)	308,982	(2,074,809)	114,419
Nonoperating revenues (expenses):			
Investment income	290,542	176,874	405,623
Interest expense	(1,003,664)	(2,252,686)	
Operating grants and contributions			1,893,862
Gain on sale of property and equipment			362,734
Capital assistance - component units			
Other income			5,070
	(713,122)	(2,075,812)	2,667,289
Income (Loss) Before Capital Contributions and Transfers	(404,140)	(4,150,621)	2,781,708
Capital contributions:			
Grants and contributions received		1,048,822	
Infrastructure improvements donated	107,153	91,160	
	107,153	1,139,982	
Income (Loss) Before Transfers	(296,987)	(3,010,639)	2,781,708
Transfers in (out):			
Transfer in		2,900,000	
Transfer out			(3,375,000)
		2,900,000	(3,375,000)
Change in Net Assets	(296,987)	(110,639)	(593,292)
Net assets at beginning of year	18,000,003	48,096,625	12,948,858
NET ASSETS AT END OF YEAR	\$ 17,703,016	\$ 47,985,986	\$ 12,355,566

The notes to the financial statement are an integral part of this statement.

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
\$ 411,947	\$ 14,956,233	\$ 14,817,209	\$ 15,410,119	\$ 14,713,065
625,783	933,215	884,361		
1,037,730	15,889,448	15,701,570	15,410,119	14,713,065
280,060	5,423,283	5,441,529	10,403,206	10,103,100
248,286	1,197,917	1,262,916	455,017	459,423
1,072,841	6,141,653	6,503,615	1,946,887	2,055,932
287,395	5,628,855	5,373,237	463,371	479,247
1,888,582	18,391,708	18,581,297	13,268,481	13,097,702
(850,852)	(2,502,260)	(2,879,727)	2,141,638	1,615,363
	873,039	851,667	615,296	387,253
	(3,256,350)	(3,227,511)		
507,469	2,401,331	1,687,353		
	362,734		11,233	3,030
		(94,228)		
	5,070	10,000		
507,469	385,824	(772,719)	626,529	390,283
(343,383)	(2,116,436)	(3,652,446)	2,768,167	2,005,646
	1,048,822	1,185,048		
	198,313			
	1,247,135	1,185,048		
(343,383)	(869,301)	(2,467,398)	2,768,167	2,005,646
1,175,000	4,075,000	2,525,000		
	(3,375,000)	(2,275,000)		
1,175,000	700,000	250,000		
831,617	(169,301)	(2,217,398)	2,768,167	2,005,646
5,058,246	84,103,732	86,321,130	11,168,368	9,162,722
\$ 5,889,863	\$ 83,934,431	\$ 84,103,732	\$ 13,936,535	\$ 11,168,368

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

EXHIBIT A-10

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Cash flows from operating activities:			
Receipts from customers	\$ 5,530,633	\$ 8,851,400	\$ 326,343
Payments to suppliers for goods and services	(1,201,613)	(3,480,274)	(112,375)
Payments to employees for services	(2,005,364)	(3,119,993)	(13,264)
Payments connected with interfund services	(574,167)	(578,665)	
Net cash provided by (used in) operating activities	<u>1,749,489</u>	<u>1,672,468</u>	<u>200,704</u>
Cash flows from noncapital financing activities:			
Operating grants and contributions received			1,893,862
Capital assistance - component units			
Other income			5,070
Transfers in		2,900,000	
Transfers out			(3,375,000)
Advances from other funds			
Net cash provided by (used in) noncapital financing activities		<u>2,900,000</u>	<u>(1,476,068)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(4,286,926)	(6,486,008)	(29,066)
Proceeds from issuance of long-term debt	10,284,173	8,482,073	
Principal payments on long-term debt	(8,261,397)	(8,778,930)	
Interest paid	(966,978)	(2,261,938)	
Bond issuance costs	(142,749)	(108,118)	
Proceeds from sale of property and equipment			1,319,145
Capital contributions		760,193	
Net cash provided by (used in) capital and related financing activities	<u>(3,373,877)</u>	<u>(8,392,728)</u>	<u>1,290,079</u>
Cash flows from investing activities:			
Investment income	290,542	176,874	405,623
Advances to other funds			629,047
Net cash provided by (used in) investing activities	<u>290,542</u>	<u>176,874</u>	<u>1,034,670</u>
Net increase (decrease) in cash and cash equivalents	(1,333,846)	(3,643,386)	1,049,385
Cash and cash equivalents at beginning of year	<u>5,521,349</u>	<u>4,559,137</u>	<u>7,292,100</u>
Cash and cash equivalents at end of year	<u>\$ 4,187,503</u>	<u>\$ 915,751</u>	<u>\$ 8,341,485</u>
Balance sheet classification of cash and cash equivalents:			
Current assets - cash and cash equivalents	\$ 4,187,503	\$ 915,751	\$ 8,341,485
Restricted assets - cash and cash equivalents			
Total balance sheet classification	<u>\$ 4,187,503</u>	<u>\$ 915,751</u>	<u>\$ 8,341,485</u>

(Continued on next page)

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
\$ 1,022,097	\$ 15,730,473	\$ 15,544,918	\$ 15,272,193	\$ 15,026,550
(1,253,025)	(6,047,287)	(6,430,685)	(2,051,792)	(2,337,413)
(281,327)	(5,419,948)	(5,621,837)	(10,950,734)	(9,722,397)
(139,668)	(1,292,500)	(1,220,661)	(326,270)	(306,946)
(651,923)	2,970,738	2,271,735	1,943,397	2,659,794
439,507	2,333,369	1,687,353		
	5,070	(94,228)		
1,175,000	4,075,000	10,000		
	(3,375,000)	2,525,000		
(629,047)	(629,047)	(2,275,000)		
985,460	2,409,392	223,793		
(280,247)	(11,082,247)			
	18,766,246	(15,236,996)	(265,676)	(561,972)
	(17,040,327)	14,395,075		
	(3,228,916)	(4,419,172)		
	(250,867)	(3,146,647)		
	1,319,145	(164,736)		
	760,193	1,185,048	11,233	3,030
(280,247)	(10,756,773)			
		(7,387,428)	(254,443)	(558,942)
	873,039			
	629,047	851,667	615,296	387,253
	1,502,086	(223,874)		
		627,793	615,296	387,253
53,290	(3,874,557)			
1,155,678	18,528,264	(2,410,901)	2,304,250	2,488,105
		20,939,165	13,611,772	11,123,667
\$ 1,208,968	\$ 14,653,707	\$ 18,528,264	\$ 15,916,022	\$ 13,611,772
\$ 1,208,968	\$ 14,653,707	\$ 17,145,758	\$ 15,916,022	\$ 13,611,772
		1,382,506		
\$ 1,208,968	\$ 14,653,707	\$ 18,528,264	\$ 15,916,022	\$ 13,611,772

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

EXHIBIT A-10
(Continued)

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 308,982	\$ (2,074,809)	\$ 114,419
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,449,894	3,812,848	78,718
Amortization of bond issuance costs	30,026	39,807	
Change in current assets and liabilities:			
Decrease (increase) in account receivables	(78,928)	(91,023)	557
Decrease (increase) in due from other governmental units			
Decrease (increase) in inventory	(1,361)	1,014	
Decrease (increase) in prepaid expenses			
Increase (decrease) in accounts payable	29,980	(16,961)	(6,827)
Increase (decrease) in accrued payroll	3,198	1,592	(188)
Increase (decrease) in claims and judgements payable			
Increase (decrease) in contracts payable			(4,329)
Increase (decrease) in compensated absences payable			
Increase (decrease) in unearned revenue			
Increase (decrease) in other liabilities	7,698		18,354
Total Adjustments	<u>1,440,507</u>	<u>3,747,277</u>	<u>86,285</u>
Net cash provided by (used in) operating activities	\$ <u>1,749,489</u>	\$ <u>1,672,468</u>	\$ <u>200,704</u>

Noncash Investing, Capital and Financing Activities - During the year ended June 30, 2007, infrastructure improvements with an estimated value of \$107,153 and \$91,160 were constructed and funded by the Community Development Block Grant Fund and subsequently donated to the Water and Wastewater Funds, respectively.

The notes to the financial statements are an integral part of this statement.

Enterprise Funds Other Nonmajor Enterprise Funds	Totals		Governmental Activities - Internal Service Funds Totals	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
\$ (850,852)	\$ (2,502,260)	\$ (2,879,727)	\$ 2,141,638	\$ 1,615,363
287,395	5,628,855 69,833	5,373,237 52,629	463,371	479,247
(10,631)	(180,025)	(140,335)	13,354	313,485
(560)	(907)	(3,051)	(151,280)	
2,672	2,672	(11,295)	15,632	(32,978)
(31,652)	(25,460)	81,245	7,160	(96,026)
(1,267)	3,335	(180,308)	41,767	191,419
(42,026)	(46,355)	(4,343)	(136,613) 1,050	119,120
(6,491)	(6,491)	5,445	(452,682)	70,164
1,489	27,541	(21,762)		
198,929	5,472,998	5,151,462	(198,241)	1,044,431
\$ (651,923)	\$ 2,970,738	\$ 2,271,735	\$ 1,943,397	\$ 2,659,794

City of Port Huron

FIDUCIARY FUNDS - STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

EXHIBIT A-11

	Private Purpose Trust Funds	Agency
ASSETS		
Cash and cash equivalents	\$ 29,745	\$ 700,592
LIABILITIES		
Liabilities:		
Due to other governmental units		\$ 29,713
Taxes collected in advance		670,879
Total Liabilities		\$ 700,592
NET ASSETS		
Net assets held in trust	\$ 29,745	

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS - STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2007

EXHIBIT A-12

		Private Purpose Trust Funds	
		June 30, 2007	June 30, 2006
Additions:			
Investment income		\$ 1,410	\$ 1,097
Deductions:			
Supplies and materials		900	900
Contractual services		3,295	20
Total Deductions		4,195	920
Change in Net Assets		(2,785)	177
Net assets at beginning of year		32,530	32,353
NET ASSETS AT END OF YEAR		\$ 29,745	\$ 32,530

The notes to the financial statements are an integral part of this statement.

City of Port Huron

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS**
June 30, 2007

EXHIBIT A-13

	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
ASSETS						
Assets:						
Cash and cash equivalents	\$ 370,724	\$ 1,164,088	\$	\$ 376,663	\$ 75,398	\$ 1,986,873
Receivables (net of allowances for uncollectibles)	4,482			4,164	20,500	29,146
Inventories					8,875	8,875
Prepaid and deferred items					7,726	7,726
Restricted assets (cash and cash equivalents)					265,487	265,487
Capital assets (net of accumulated depreciation)					2,523,270	2,523,270
Total Assets	<u>375,206</u>	<u>1,164,088</u>		<u>380,827</u>	<u>2,901,256</u>	<u>4,821,377</u>
LIABILITIES						
Liabilities:						
Accounts payable	90	54		376,185	162,285	538,614
Accrued payroll					111,426	111,426
Other liabilities					44,582	44,582
Unearned revenue					265,487	265,487
Total Liabilities	<u>90</u>	<u>54</u>		<u>376,185</u>	<u>583,780</u>	<u>960,109</u>
NET ASSETS						
Invested in capital assets, net of related debt					2,523,270	2,523,270
Unrestricted (deficit)	<u>375,116</u>	<u>1,164,034</u>		<u>4,642</u>	<u>(205,794)</u>	<u>1,337,998</u>
Net Assets	<u>\$ 375,116</u>	<u>\$ 1,164,034</u>	<u>\$ 0</u>	<u>\$ 4,642</u>	<u>\$ 2,317,476</u>	<u>\$ 3,861,268</u>

The notes to the financial statements are an integral part of this statement.

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2007

EXHIBIT A-14

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development:				
Governmental activities:				
Community and economic development	\$ 1,564,257	\$	\$	\$
Tax Increment Finance:				
Governmental activities:				
Community and economic development	251,916			
Taxes disbursed - not captured	2,626,907			
Total tax increment finance	2,878,823			
Local Development Finance:				
Governmental activities:				
Community and economic development	235,471			
Brownfield Redevelopment:				
Governmental activities:				
Community and economic development	379,123			
McMorran:				
Business-type activities:				
McMorran	2,503,600	1,723,608	335,000	308,443
Total component units	\$ 7,561,274	\$ 1,723,608	\$ 335,000	\$ 308,443

General revenues:
Property taxes
Unrestricted state-shared revenues
Unrestricted investment income
Other

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

NET ASSETS AT END OF YEAR

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets					
Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
\$ (1,564,257)	\$	\$	\$	\$	\$ (1,564,257)
	(251,916)				(251,916)
	(2,626,907)				(2,626,907)
	(2,878,823)				(2,878,823)
		(235,471)			(235,471)
			(379,123)		(379,123)
				(136,549)	(136,549)
(1,564,257)	(2,878,823)	(235,471)	(379,123)	(136,549)	(5,194,223)
1,170,252	2,786,496	235,471	383,335		4,575,554
4,011					4,011
				6,509	6,509
544,932				400	545,332
1,719,195	2,786,496	235,471	383,335	6,909	5,131,406
154,938	(92,327)		4,212	(129,640)	(62,817)
220,178	1,256,361		430	2,447,116	3,924,085
\$ 375,116	\$ 1,164,034	\$ 0	\$ 4,642	\$ 2,317,476	\$ 3,861,268

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2007

EXHIBIT A-15

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Port Huron, Michigan have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

THE FINANCIAL REPORTING ENTITY

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present the City of Port Huron (the Primary Government) and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. The Port Huron Building Authority is reported as part of the City and blended into the special revenue funds. The Port Huron Building Authority is a municipal nonprofit, nonstock corporation organized under the laws of the State of Michigan for the purpose of acquiring and owning buildings for lease to the City of Port Huron. During the year ended June 30, 2007 there was no activity between the Authority and the City of Port Huron.

A discretely presented component unit is an entity that is legally separate from the City but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Such component units are reported in separate columns to emphasize that they are legally separate from the City.

The Henry McMorran Memorial Auditorium Authority (McMorran), which is an autonomous governmental entity, was incorporated on August 13, 1956 and amended on April 27, 1964. The management and control of McMorran is vested in a board of nine commissioners who are appointed by City Council. Thereafter the commissioners have the sole power to designate and hire all employees including the manager. They adopt their own bylaws, rules, budgets and regulations. All accounting records are under the exclusive control of the commissioners. The City contributes to McMorran on an annual basis. McMorran's primary activities, which are as of and for the year ended June 30, 2007, are reported discretely as a proprietary fund type - Enterprise Fund. Complete financial statements of McMorran can be obtained from its administrative offices at 701 McMorran Boulevard, Port Huron, MI 48060.

The City of Port Huron Downtown Development Authority (DDA) is a municipal nonprofit, nonstock corporation organized in 1976 under the laws of the State of Michigan for the purpose of correcting and preventing deterioration in the business district and promoting economic growth therein. The City of Port Huron Tax Increment Finance Authority (TIFA) is a municipal nonprofit, nonstock corporation organized on April 13, 1981 under the laws of the State of Michigan for the purpose of financing public facilities within certain designated areas of the City. The City of Port Huron Local Development Finance Authority (LDFA) is a municipal nonprofit, nonstock corporation organized on May 14, 1990 under the laws of the State of Michigan for the purpose of financing public facilities and general infrastructure needs of specific project districts including the industrial park. The City of Port Huron Brownfield Redevelopment Authority (BRA) is a municipal nonprofit, nonstock corporation organized on March 10, 1997 under the laws of the State of Michigan for the purpose of remediation, removal and redevelopment of formerly contaminated properties for beneficial uses. In addition, the City qualifies for financing of public facilities and general infrastructure needs for specific remediation sites. The governing bodies of each Authority are appointed by the City Council. Their budget and any bond issuance authorizations also are approved by the City Council. The funding for the DDA is provided by a two mill levy on property within the district and by increased property tax collections within designated areas. The funding for the TIFA, LDFA and BRA is

provided by increased property tax collections from improvements and increased valuations within the designated areas. Each of the Authorities' primary activities, which are as of and for the year ended June 30, 2007, are reported discretely as governmental fund types - Special Revenue Funds. As of June 30, 2007, the DDA manages five plans, the TIFA manages four (three of which no longer capture taxes) and the LDFA and BRA each manage one plan.

Additional financial information for the Authorities may be obtained from the City's administrative offices, however, separate financial statements are not prepared.

The Port Huron Housing Commission was created by the City of Port Huron in accordance with the laws of the State of Michigan. The City appoints a majority of its governing body, but is not able to impose its will. Further, there is no financial benefit or burden to the City of Port Huron resulting from the Housing Commission. Therefore, the City is not financially accountable for the Commission, and it is excluded from these financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety and welfare.

Summary financial information for the fiscal year ended June 30, 2006, the date of its latest audited financial statements, is as follows:

Total Assets	\$ 13,026,679
Total Liabilities	<u>375,261</u>
Total Net Assets	<u>\$ 12,651,418</u>
Invested in Capital Assets	10,734,601
Unrestricted	<u>1,916,817</u>
Total Net Assets	<u>\$ 12,651,418</u>
Total Operating Revenues	\$ 5,286,850
Total Operating Expenses	(5,515,314)
Total Nonoperating Expenses	(366,808)
Total Capital Contributions	<u>490,828</u>
Change in Net Assets	<u>\$ (104,444)</u>

Complete audited financial statements can be obtained from the Housing Commission at 905 Seventh Street, Port Huron, Michigan 48060.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes

are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The City reports deferred revenue in the governmental funds when a potential revenue does not meet the “available” criteria for recognition in the current period. Generally such unavailable revenues are not significant. Deferred or unearned revenues also arise when resources are received by the City before they are earned, as when grant monies are received prior to the incurrence of qualifying expenditures, or when receivables are collectible over an extended period of time and because of the terms and other conditions there is no reasonable basis for estimating the degree of collectibility. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources or as the collectibility is determined, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues (except governmental reimbursement grants and contracts) to be available if they are collected within thirty-five days of the end of the current fiscal period. Governmental reimbursement grant and contract revenues are considered to be available if they are collected within seventy-five days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, City income tax revenues (principally employee withholdings), state shared revenues, reimbursement type grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for the various state shared and other revenues relating to the repairs and maintenance of the major streets and state trunklines.

The Local Streets Fund accounts for the various state shared and other revenues relating to the repairs and maintenance of the local streets.

The Municipal Streets Fund accounts for property taxes levied for street construction and repairs and the Blue Water Area Transportation Commission (BWATC) and for various other revenues related to construction activities.

The City reports the following major proprietary funds:

The Water Fund is used to account for the provision of water and related services to the residents of the City and surrounding townships.

The Wastewater Fund is used to account for the collection of wastewater and related treatment services to the residents of the City and surrounding townships.

The Land Purchase Fund accounts for the acquisition and sale of land and the rental of property held by the City for the purposes of attracting commercial, residential, and industrial development in the Port Huron area.

Additionally, the government reports the following fund types:

Internal Service Funds account for office supply room and copier activities, rental of City owned vehicles and other equipment, data processing services and payment of insurance and payroll related fringe benefits provided to other departments or agencies of the City on a cost reimbursement basis.

Fiduciary funds (specifically private purpose trust funds) are used to account for resources legally held in trust for use in port promotion and senior citizen's projects. All resources of the funds, including any earnings on invested resources, may be used to support these activities. There is no requirement that any portion of these resources be preserved as capital. Agency funds generally are used to account for assets (taxes collected) that the City holds on behalf of others as their agent.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the water and wastewater functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue other than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CASH AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the City.

State statutes and the policy adopted by the City Council authorize general City funds to be deposited in government insured accounts in banks and thrifts, within the state. Permissible investments include obligations of the U.S. Treasury and agencies (either individually or in pooled funds), domestic certificates of deposit, commercial paper with prescribed ratings and repurchase agreements.

Certificates of deposit with an original maturity date in excess of three months are classified as investments and reported at original cost, which approximates fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less (of which there were none in the current year) are stated at amortized cost. All other investments are stated at fair value based upon quoted market prices.

The City participates in bank administered external investment pools, which are registered with the Securities and Exchange Commission, in which the fair value of the City's portion in the pool is the same as the value of the pool shares.

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the respective funds balance sheet or statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Cash deficit balances have been classified as due to other funds with a corresponding amount reflected as due from other funds.

INVENTORIES

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed, rather than when purchased.

PREPAID AND DEFERRED ITEMS

Payments made to vendors for services and other payments that will benefit periods beyond June 30, 2007 are recorded as prepaid and deferred items.

RESTRICTED ASSETS

In accordance with bond covenants, bond proceeds received in the Water and Wastewater Funds (Enterprise Funds) are restricted for designated improvements to the respective systems. Because these resources are restricted as to their use, they are classified as restricted assets on the statement of net assets and the statement of cash flows. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CAPITAL ASSETS

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. All purchased capital assets, including public domain assets, are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. All costs related to the construction of facilities including interest, salaries and employee benefits are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 10 years for vehicles, machinery and equipment and 10 to 50 years for buildings, infrastructure and other improvements.

COMPENSATED ABSENCES

All matured and vested compensated absences are recorded and paid in the Insurance and Fringe Benefit Fund, an Internal Service Fund. All liabilities as incurred are paid to the Internal Service Fund by the applicable governmental or proprietary funds. At June 30, 2007 the total accrued liability (\$2,768,313) for vested vacation and vested sick leave benefits was recorded in the Insurance and Fringe Benefit Fund. In accordance with the provisions of GASB Statement 16, no liability is recorded for nonvesting accumulating rights to receive sick leave benefits.

LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

For the government wide financial statements, all long-term obligations are recorded within the applicable governmental or business-type activity.

FUND EQUITY

Fund balances are reserved for inventories, prepaid items and endowments. Reserves represent those portions of the fund equity which cannot be appropriated for expenditure or are legally segregated for a specific future use. Amounts reserved for endowments in the Cemetery Perpetual Care Fund (Permanent Fund) are not available for expenditure. All interest and dividends earned in the Cemetery Perpetual Care Fund are transferred annually for use in the Cemetery (Operating) Fund. Therefore, there are no resources available for expenditure in the Cemetery Perpetual Care Fund.

The City Council has designated a portion of the fund balance in certain funds to be used for subsequent years' expenditures. The City had no fund deficits as defined under State statute; however, the McMorran Auditorium Authority, a component unit, had negative unrestricted net assets as of June 30, 2007.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as a provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

INTERFUND TRANSACTIONS

Interfund services provided and used are accounted for as revenues, and expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the government's financial position and operations. Certain reclassifications of prior year's data have been made to conform to the current year presentation. Additionally, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles and State statutes. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Encumbrances lapse at year end; however, they are generally reappropriated as part of the following year's budget.

The City Manager receives requests for appropriations from all City departments and agencies in January of each year so that a budget may be prepared. The budget is prepared by fund, function and activity and includes information on the past two years, the current year and requested appropriations for the fiscal year beginning July 1st.

On or before the fourth Monday in April, the proposed budget is presented to the City Council for review. The City Council holds a public hearing and may make any revisions which, in their opinion and as a result of the public hearing thereon, may appear advisable.

Expenditures may not legally exceed budget appropriations at the functional level. Supplemental appropriations to the City's budget require the approval of the City Council. Transfers within functional levels that do not affect aggregate expenditures may be approved by the City Manager. During the year, a supplemental appropriation was adopted to reflect changes in economic conditions. Further, after June 30, 2007, the City Council approved a transfer of \$700,000 from the General Fund to the Wastewater Fund. All budget adjustments are reflected as the Final Budget in this report.

STATE CONSTRUCTION CODE ACT

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provisions of the Act, the City adopted this accounting treatment effective January 1, 2000. For the year ended June 30, 2007, building department revenues and expenditures totaled \$420,137 and \$506,601 respectively. Cumulative building department revenues and expenditures since July 1, 1999 totaled \$2,600,174 and \$3,859,442 respectively.

NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 20 of 1943, as amended, authorizes investments in any bonds, securities and other investments within the limitations prescribed by Public Act 20. For mutual funds, this authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

The Cemetery Perpetual Care Fund is authorized by Public Act 157 of 1976 to invest or reinvest in real or personal property deemed advisable by the governing board, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, individuals, and obligations of any government, or subdivision, or instrumentality thereof, retain property contributed by a donor to an institutional fund for as long as the governing board deems advisable, include all or any part of an institutional fund in a pooled or common fund maintained by the institution and invest all or any part of an institutional fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds, securities, and other investments in accordance with the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below.

CUSTODIAL CREDIT RISK OF BANK DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City's deposit balance of \$45,616,517 had \$45,106,517 of bank deposits (certificates of deposit, pooled accounts, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CUSTODIAN CREDIT RISK OF INVESTMENTS

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodian credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

INTEREST RATE RISK

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The City's policy minimizes interest rate risk by structuring the investment portfolio so that securities

mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the City's cash requirements. It is the City's policy to hold such securities until maturity.

At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Investments:		
Cemetery Perpetual Care Fund		
Corporate Bonds	\$ 2,906,346	8.0 years
U.S. Government Agency Notes	<u>1,574</u>	10.4 years
	<u>2,907,920</u>	
Other items reported as investments in the Statement of Net Assets:		
General Fund		
Certificates of Deposit	2,000,000	
Municipal Streets Fund		
Certificates of Deposit	2,000,000	
Cemetery Perpetual Care Fund		
Equities	<u>2,246,222</u>	
Total other items	<u>6,246,222</u>	
	<u>\$ 9,154,142</u>	

CREDIT RISK

Endowment funds are authorized by Public Act 157 of 1976 to invest, in part, in mortgages, stocks, bonds, debentures and other securities. The City does not have a policy for credit risk. The City uses the Moody's rating agency to rate its investments. As of June 30, 2007 the credit ratings of debt securities (other than the U.S. government) for the Cemetery Perpetual Care Fund are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Corporate bonds	\$ 383,524	AAA
Corporate bonds	1,108,735	AA
Corporate bonds	590,953	A
Corporate bonds	38,500	BBB
Corporate bonds	574,009	BB
Corporate bonds	<u>210,625</u>	B
Total	<u>\$ 2,906,346</u>	

CONCENTRATION OF CREDIT RISK

The City places no limit on the amount it may invest in any one issue. More than five percent of the Cemetery Perpetual Care Fund's investments are in the following corporate bonds:

	<u>Fair Value</u>	<u>Fund %</u>	<u>City Investment</u>
GMAC - 7% 10-15-11	\$ 186,437	3.62%	2.04%
GMAC - 6.75% 6-15-17	137,427	2.66	1.50
General Motors Corp. (GM) - 7.4% 9-1-25	<u>210,625</u>	<u>4.09</u>	<u>2.30</u>
Total GM and related	<u>\$ 534,489</u>	<u>10.37%</u>	<u>5.84%</u>

NOTE D--RECEIVABLES

Receivables at June 30, 2007 consist of the following:

	<u>General</u>	<u>Special Revenue/ Permanent</u>	<u>Total Governmental Funds</u>	<u>Internal Service</u>	<u>Total Governmental Activities</u>	<u>Business-type Activities (Enterprise)</u>
Receivables:						
Income tax	\$1,286,912	\$	\$ 1,286,912	\$	\$ 1,286,912	\$
Interest receivable		34,621	34,621		34,621	
Property taxes	78,724	33,646	112,370		112,370	
Accounts	<u>56,705</u>	<u>2,970,246</u>	<u>3,026,951</u>	<u>189,288</u>	<u>3,216,239</u>	<u>3,694,211</u>
Gross Receivables	1,422,341	3,038,513	4,460,854	189,288	4,650,142	3,694,211
Less allowances for uncollectibles	<u>8,250</u>	<u>3,500</u>	<u>11,750</u>		<u>11,750</u>	<u>76,000</u>
Net total receivables	<u>\$1,414,091</u>	<u>\$ 3,035,013</u>	<u>\$ 4,449,104</u>	<u>\$ 189,288</u>	<u>\$ 4,638,392</u>	<u>\$ 3,618,211</u>

Property taxes receivable represents the past five years of uncollected personal and certain real property tax levies.

Property taxes are levied as of July 1st (lien date and due date) on the taxable valuation of property, as of the preceding December 31st.

Real and personal property taxes are collected without additional charge for a period of one month from the date the bills are due. After that period of time one percent is added up to a maximum of four percent for all unpaid taxes. The City continues to collect taxes until March 1st, at which time the delinquent real property taxes are returned to the County for collection. The County's policy has been to pay the City for all delinquent real property taxes returned. The City continues to collect delinquent personal property taxes for a period of five years.

The City has received two U.S. Housing Development Action Grants in the amount of \$2,945,975 which have been loaned to a developer to assist in the construction of rental property within the City. These loans are collateralized by the rental facilities. As the funds are not currently available to the City and are not expected to be repaid for a number of years, the City has recorded, within the special revenue funds, a receivable from the developer and deferred revenue until such time as the principal and interest is received (\$1,845,975 in 2009 and \$1,100,000 in 2015, subject to contractual provisions).

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported in the fund financial statements as "due to/from other funds". These amounts result from short-term lending from one fund to another. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Due from/to other funds are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Funds - Nonmajor special revenue funds:		
Rubbish and Garbage Collection	Community Development Block Grant	\$ 84,460
	Neighborhood Rehabilitation	<u>38,289</u>
		<u>\$ 122,749</u>

NOTE F--CAPITAL ASSETS

The components of property and equipment at June 30, 2007 for the primary government's governmental activities are summarized as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Property and equipment not being depreciated:				
Land	\$ 4,260,209	\$	\$	\$ 4,260,209
Construction in progress	<u>1,549,885</u>	<u>2,297,485</u>	<u>1,416,042</u>	<u>2,431,328</u>
Total property and equipment not being depreciated	<u>5,810,094</u>	<u>2,297,485</u>	<u>1,416,042</u>	<u>6,691,537</u>
Property and equipment being depreciated:				
Land improvements	9,902,241	55,542	625,288	9,332,495
Buildings	10,377,847	852		10,378,699
Streets, bridges and sidewalks	44,343,818	2,723,057	954,636	46,112,239
Machinery and equipment	8,224,688	989,672	332,019	8,882,341
Vehicles	<u>3,351,985</u>	<u>192,368</u>	<u>749,550</u>	<u>2,794,803</u>
Total property and equipment being depreciated	<u>76,200,579</u>	<u>3,961,491</u>	<u>2,661,493</u>	<u>77,500,577</u>
Less accumulated depreciation:				
Land improvements	8,372,931	129,328	625,288	7,876,971
Buildings	7,143,159	233,641		7,376,800
Streets, bridges and sidewalks	20,553,919	2,323,794	954,636	21,923,077
Machinery and equipment	6,193,774	562,046	332,019	6,423,801
Vehicles	<u>1,829,685</u>	<u>367,756</u>	<u>749,550</u>	<u>1,447,891</u>
Total accumulated depreciation	<u>44,093,468</u>	<u>3,616,565</u>	<u>2,661,493</u>	<u>45,048,540</u>
Net property and equipment being depreciated	<u>32,107,111</u>	<u>344,926</u>		<u>32,452,037</u>
Net governmental property and equipment	<u>\$ 37,917,205</u>	<u>\$ 2,642,411</u>	<u>\$ 1,416,042</u>	<u>\$ 39,143,574</u>

The components of property and equipment at June 30, 2007 for the primary government's business-type activities are summarized as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Property and equipment not being depreciated:				
Land	\$ 5,586,973	\$	\$	\$ 5,586,973
Construction in progress	<u>14,045,217</u>	<u>7,878,900</u>	<u>9,121,125</u>	<u>12,802,992</u>
Total property and equipment not being depreciated	<u>19,632,190</u>	<u>7,878,900</u>	<u>9,121,125</u>	<u>18,389,965</u>
Property and equipment being depreciated:				
Land improvements	859,022		4,725	854,297
Buildings	40,006,873	422,651	980,967	39,448,557
Systems	148,865,302	12,253,507	107,933	161,010,876
Machinery and equipment	<u>13,872,988</u>	<u>47,039</u>	<u>89,642</u>	<u>13,830,385</u>
Total property and equipment being depreciated	<u>203,604,185</u>	<u>12,723,197</u>	<u>1,183,267</u>	<u>215,144,115</u>
Less accumulated depreciation:				
Land improvements	731,759	28,434	4,725	755,468
Buildings	17,920,288	1,106,536	24,556	19,002,268
Systems	28,154,845	4,215,421	107,933	32,262,333
Machinery and equipment	<u>11,692,929</u>	<u>278,464</u>	<u>89,642</u>	<u>11,881,751</u>
Total accumulated depreciation	<u>58,499,821</u>	<u>5,628,855</u>	<u>226,856</u>	<u>63,901,820</u>
Net property and equipment being depreciated	<u>145,104,364</u>	<u>7,094,342</u>	<u>956,411</u>	<u>151,242,295</u>
Net business-type property and equipment	<u>\$ 164,736,554</u>	<u>\$14,973,242</u>	<u>\$10,077,536</u>	<u>\$169,632,260</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 752,228
Public safety	423,154
Public works	2,349,624
Recreation, parks and culture	<u>91,559</u>
Total governmental activities	<u>\$ 3,616,565</u>
Business-type activities	
Water	\$ 1,449,894
Wastewater	3,812,848
Land purchase	78,718
Parking	338
Senior citizens	190,726
Marina	<u>96,331</u>
Total business-type activities	<u>\$ 5,628,855</u>

NOTE G--INTERFUND TRANSFERS

Interfund transfers are used either to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; or to use unrestricted revenues collected in the General Fund or the Land Purchase Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers are as follows:

Transfers to Major Streets from Municipal Streets	<u>\$ 1,975,000</u>
Transfers to Local Streets from:	
Major Streets	\$ 437,317
Municipal Streets	<u>175,000</u>
Total	<u>\$ 612,317</u>
Transfer to Wastewater from Land Purchase	<u>\$ 2,200,000</u>
Transfers to nonmajor governmental funds from:	
General Fund (Cemetery - \$204,000; Beautification - \$3,300)	\$ 207,300
Nonmajor governmental funds (Cemetery Perpetual Care to Cemetery)	<u>263,757</u>
Total	<u>\$ 471,057</u>
Transfer to nonmajor Enterprise Fund (Marina Fund) from Land Purchase	<u>\$ 1,175,000</u>
Transfer to Wastewater from General Fund	<u>\$ 700,000</u>

NOTE H--LONG TERM DEBT

Long-term debt of the City is as follows:

	Balance July 1, 2006	* Additions	(Reductions)	Balance June 30, 2007	Due Within One Year
Business-type activities:					
Water Fund:					
4.0% to 5.0% 2006 Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of \$190,268 and unamortized deferred charge on refunding of \$313,587; amount of issue - \$6,890,000	\$	\$ 6,766,681	\$	\$ 6,766,681	\$ 10,513

	Balance July 1, 2006	* Additions	(Reductions)	Balance June 30, 2007	Due Within One Year
2.0% to 5.0% 2004A Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of \$62,800; amount of issue - \$3,000,000	\$ 2,866,725	\$	\$ (118,925)	\$ 2,747,800	\$ 123,925
3.40% to 5.25% 1999C Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized discount of \$19,588; amount of issue - \$10,000,000	7,887,884		(7,057,472)	830,412	390,206
2.125% to 2.5% Drinking Water Revolving Fund (DWRP) Water Supply System General Obligation Limited Tax Bonds:					
Series 7088-01	7,045,520		(385,000)	6,660,520	395,000
Series 7105-01	1,469,742	(24,406)	(75,000)	1,370,336	65,000
Series 7110-01	2,944,019	15,957	(165,000)	2,794,976	170,000
Series 7113-01	1,585,000		(75,000)	1,510,000	80,000
Series 7119-01		885,864		885,864	85,000
Series 7132-01	456,073	(4,843)	(20,000)	431,230	20,000
Series 7147-01	1,884,198	15,735	(95,000)	1,804,933	100,000
Series 7150-01	500,000	(18,496)	(20,000)	461,504	20,000
Series 7167-01	1,441,440	334,301	(80,000)	1,695,741	85,000
Series 7168-01	1,712,115	21,462	(85,000)	1,648,577	90,000
Series 7169-01	382,591	4,941	(15,000)	372,532	15,000
Series 7185-01	223,481	628,720		852,201	55,000
Series 7186-01	234,307	386,497	(40,000)	580,804	45,000
Series 7187-01	167,642	406,869	(30,000)	544,511	30,000
Series 7188-01		615,367		615,367	35,000
Series 7220-01		249,524		249,524	
Total Water Fund	<u>30,800,737</u>	<u>10,284,173</u>	<u>(8,261,397)</u>	<u>32,823,513</u>	<u>1,814,644</u>

Wastewater Fund:

4.0% to 5.0% 2006 Wastewater General Obligation Limited Tax Bonds, net of unamortized premium of \$104,976 and unamortized deferred charge on refunding of \$256,227; amount of issue - \$5,500,000		5,348,749		5,348,749	13,369
3.5% to 4.2% 2005B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$92,106; amount of issue - \$6,500,000	6,402,783		(169,889)	6,232,894	169,883
2.6% to 4.6% 2003B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$63,344; amount of issue - \$5,500,000	5,032,697		(196,041)	4,836,656	196,041
3.125% to 5.0% 2002 Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$80,000; amount of issue - \$10,000,000	9,115,000		(320,000)	8,795,000	345,000
4.875% to 5.25% 1999A Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$12,000; amount of issue - \$8,000,000	6,341,000		(5,603,000)	738,000	369,000

	Balance July 1, 2006	* Additions	(Reductions)	Balance June 30, 2007	Due Within One Year
1.625% to 2.5% State Revolving Fund (SRF) Wastewater General Obligation Limited Tax Bonds:					
Series 5006-01	\$ 3,708,192	\$	\$ (225,000)	\$ 3,483,192	\$ 230,000
Series 5006-02	3,403,359		(230,000)	3,173,359	235,000
Series 5006-03	7,520,000		(420,000)	7,100,000	430,000
Series 5006-04	6,140,634		(350,000)	5,790,634	360,000
Series 5006-05	472,134		(30,000)	442,134	30,000
Series 5006-06	2,721,257	(3,481)	(155,000)	2,562,776	160,000
Series 5006-07	2,910,000		(140,000)	2,770,000	145,000
Series 5006-08	1,365,856	925	(70,000)	1,296,781	60,000
Series 5006-09	3,071,920	25,729	(155,000)	2,942,649	160,000
Series 5006-10	1,120,000		(50,000)	1,070,000	50,000
Series 5006-11	1,516,652	524,706	(110,000)	1,931,358	110,000
Series 5006-12	539,096	1,058,570		1,597,666	125,000
Series 5006-13	453,312	583,638	(70,000)	966,950	70,000
Series 5006-14	370,999	721,418	(55,000)	1,037,417	60,000
Series 5006-15		221,406		221,406	
Series 5177-01	<u>8,989,587</u>	<u>413</u>	<u>(430,000)</u>	<u>8,560,000</u>	<u>440,000</u>
Total Wastewater Fund	<u>71,194,478</u>	<u>8,482,073</u>	<u>(8,778,930)</u>	<u>70,897,621</u>	<u>3,758,293</u>
Total business-type activities	101,995,215	18,766,246	(17,040,327)	103,721,134	5,572,937
Governmental activities:					
Compensated absences payable	<u>3,220,995</u>	<u>156,846</u>	<u>(609,528)</u>	<u>2,768,313</u>	<u>410,795</u>
Total	<u>\$105,216,210</u>	<u>\$ 18,923,092</u>	<u>\$(17,649,855)</u>	<u>\$106,489,447</u>	<u>\$ 5,983,732</u>

* Bracketed amounts in the additions column represent loan advances subsequently repaid following review of eligible expenditures prior to finalization of the loan amortization schedule.

On September 27, 2006, the City issued \$6,890,000 of 2006 Water Supply System Revenue (Limited Tax General Obligation) Refunding Bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$6,775,000 of 1999C Water Supply System Revenue Bonds (Limited Tax General Obligation). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$313,587. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 14 years by \$323,062 and resulted in an economic gain of \$225,917.

Also on September 27, 2006, the City issued \$5,500,000 of 2006 Wastewater General Obligation Limited Tax Refunding Bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,325,000 of 1999A Wastewater General Obligation Limited Tax Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$256,227. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 14 years by \$224,693 and resulted in an economic gain of \$172,136.

By statute, the City's general obligation debt is restricted to 10 percent of the equalized valuation of all property within the City. At June 30, 2007, the City's debt limit amounted to \$91,798,940 and indebtedness subject to the limitation totaled \$22,478,620 after reduction for debt issued pursuant to an order, leaving an available debt limit of \$69,320,320.

State law and the City's revenue bond ordinance require that the City maintain such user charges and fees for services as may be required to meet all expenses of administration and operation and reserve and debt service requirements. These ordinances also require various accounts be maintained to cover operation and maintenance; repairs and replacements;

additions, improvements, enlargements and extensions; and a reserve for bond and interest redemption. Annual contributions are made to these accounts as required and the reserve for bond and interest redemption is maintained at a level equal to the lesser of the maximum annual debt service, 125% of the average annual debt service or 10% of the principal amount of the bonds.

Construction continues for the State-mandated projects to eliminate Combined Sewer Overflows (CSO). Portions of these projects are being financed through the Michigan Drinking Water Revolving Loan Fund Program (DWRF) and the Michigan State Revolving Loan Fund Program (SRF). Principal and interest payment schedules will be finalized upon completion of the projects for each individual loan. For those DWRF and SRF loans which have not been finalized as of June 30, 2007, the preliminary principal and interest payment schedules are used up to the amount of advances as of that date. As a result, the payment schedules for the balance of the twenty year repayment period will increase as additional funds are advanced.

As of June 30, 2007, the approved loans and amounts advanced to date for the DWRF and SRF programs were as follows:

<u>Date</u>	<u>Type</u>	<u>Series</u>	<u>Approval Amount or Final Amount *</u>	<u>Advances</u>	<u>Projects</u>
June 24, 1999	SRF	5006-01	\$ 5,288,192*	\$ 5,288,192	Indian Creek 2B Indian Creek 3
March 30, 2000	SRF	5006-02	5,230,000	4,478,359	10 th Avenue Indian Creek 4
June 29, 2000	SRF	5006-03	9,470,000	9,470,000	Peavey Area Beard Area-Industrial Park 16 th Street Pump Station 10 th Street Pump Station
March 29, 2001	SRF	5006-04	8,120,000	7,460,634	Indian Creek 2C 7 th and 9 th Area Military/Electric Area
September 28, 2001	SRF	5006-05	640,000	572,134	Rural Area
December 20, 2001	DWRF	7088-01	8,945,000	8,505,520	Indian Creek 2C 7 th and 9 th Area Military/Electric Area Rural Area
March 28, 2002	SRF	5006-06	3,650,000	3,157,776	11 th Avenue Area Palmer Court Area
March 28, 2002	DWRF	7110-01	3,930,000	3,434,976	11 th Avenue Area Palmer Court Area
September 26, 2002	SRF	5177-01	10,220,000*	10,220,000	Solids Handling Project
September 26, 2002	SRF	5006-07	3,310,000	3,310,000	4 th Street Area
September 26, 2002	DWRF	7113-01	1,805,000	1,805,000	4 th Street Area
March 27, 2003	SRF	5006-08	1,496,781*	1,496,781	Tunnel Street Area
March 27, 2003	DWRF	7105-01	1,585,336*	1,585,336	Tunnel Street Area
March 25, 2004	SRF	5006-09	3,770,000	3,252,649	16 th Avenue Area 1
March 25, 2004	DWRF	7147-01	2,315,000	1,994,933	16 th Avenue Area 1
June 24, 2004	DWRF	7132-01	501,230*	501,230	Woodstock Area 1
December 16, 2004	SRF	5006-10	1,170,000*	1,170,000	24 th Street Area
March 31, 2005	DWRF	7150-01	501,504*	501,504	24 th Street Area
March 31, 2005	SRF	5006-11	2,535,000	2,041,358	16 th Avenue Area 2
March 31, 2005	DWRF	7167-01	2,015,000	1,775,741	16 th Avenue Area 2
March 31, 2005	DWRF	7168-01	2,105,000	1,818,577	Military Street
June 23, 2005	DWRF	7169-01	407,532*	407,532	Woodstock Area 2
March 30, 2006	SRF	5006-12	2,955,000	1,597,666	16 th Avenue Area 3
March 30, 2006	DWRF	7185-01	1,355,000	852,201	16 th Avenue Area 3
March 30, 2006	SRF	5006-13	1,655,000	1,036,950	Erie South Area
March 30, 2006	DWRF	7186-01	1,025,000	620,804	Erie South Area
March 30, 2006	SRF	5006-14	1,325,000	1,092,417	Merchant Area
March 30, 2006	DWRF	7187-01	705,000	574,511	Merchant Area
June 22, 2006	DWRF	7188-01	825,000	615,367	Woodstock Area 3, Canal

<u>Date</u>	<u>Type</u>	<u>Series</u>	<u>Approval Amount or Final Amount *</u>	<u>Advances</u>	<u>Projects</u>
September 21, 2006	DWRF	7119-01	\$ 2,040,000	\$ 885,864	Filter Backwash
March 29, 2007	SRF	5006-15	3,040,000	221,406	Vanness Area
March 29, 2007	DWRF	7220-01	<u>1,950,000</u>	<u>249,524</u>	Vanness Area
Total			<u>\$ 95,885,575</u>	<u>\$81,994,942</u>	

The SRF and DWRF loans marked with an asterisk (*) are considered administratively complete by the Michigan Department of Environmental Quality (DEQ) and final amortization schedules have been issued by the Michigan Municipal Bond Authority (MMBA).

Recorded in the Enterprise Funds are general obligation bonds amounting to \$103,721,134 at June 30, 2007 for which the City's full faith and credit is pledged. It is anticipated that the principal and interest on this debt will continue to be serviced by these funds. There are no bond sinking fund requirements.

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2007 are as follows:

	<u>Business-Type Activities (Enterprise Funds)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,572,937	\$ 3,171,753	\$ 8,744,690
2009	5,972,934	3,011,852	8,984,786
2010	6,185,134	2,824,579	9,009,713
2011	6,218,728	2,649,108	8,867,836
2012	6,343,252	2,468,717	8,811,969
2013-2017	34,919,504	9,359,772	44,279,276
2018-2022	32,941,094	3,730,732	36,671,826
2023-2025	<u>5,567,551</u>	<u>270,340</u>	<u>5,837,891</u>
	<u>\$ 103,721,134</u>	<u>\$ 27,486,853</u>	<u>\$ 131,207,987</u>

NOTE I--RESTRICTED ASSET ACCOUNTS

The balances of the Enterprise Fund's restricted asset accounts are as follows:

	<u>Primary Government- Water</u>	<u>Primary Government- Wastewater</u>	<u>Total Primary Government</u>	<u>Component Unit McMorran</u>
Bond construction account	\$ None	\$ None	\$ None	\$
State grant account				242,888
Seeing Stars account				<u>22,599</u>
	<u>\$ None</u>	<u>\$ None</u>	<u>\$ None</u>	<u>\$ 265,487</u>

In accordance with bond covenants, bond proceeds received in the Water and Wastewater Funds are restricted for designated improvements to the respective systems and held in bond construction accounts. As of June 30, 2007, there were no unexpended bond proceeds. Assets of McMorran have been restricted for the renovation and revitalization of the McMorran Place Auditorium and Main Arena.

NOTE J--COMMITMENTS FROM COMPONENT UNITS

The Downtown Development Authority, the Tax Increment Finance Authority and the Local Development Finance Authority have committed to repay the General Fund (\$1,106,326) and the Land Purchase Fund (\$19,832,776) for payments made on behalf of the Authorities. Such payments were made to finance various improvements, public facilities and infrastructure needs in accordance with each authority's specific purposes. The payments made on behalf of the Authorities are to be repaid from the future collection of property tax revenues restricted for those purposes. The future collection of property tax revenues is dependent upon several factors including development and sale of real estate, increases in property valuation and general economic conditions. It is not known when or if such amounts due from component units will be repaid. Because collectibility cannot be reasonably estimated or assured due to the uncertainties discussed above and the extended period of the expected repayments, the City has not recorded the outstanding balances due from component units.

Revenue is recognized annually as nonoperating revenues - operating grants and contributions as payments are made by the component units from available incremental tax receipts. If further tax revenues are insufficient, such amounts due from component units may not be repaid.

The activity from component units for the year ended June 30, 2007 are summarized as follows:

	Balance July 1, 2006	Additions	(Reductions)	Balance June 30, 2007
Commitment from Component Units:				
Downtown Development - On behalf of payments from primary government:				
General Fund	\$ 551,166	\$	\$	\$ 551,166
Land Purchase Fund	<u>15,563,713</u>	<u> </u>	<u>(1,540,469)</u>	<u>14,023,244</u>
Total Downtown Development	<u>16,114,879</u>	<u> </u>	<u>(1,540,469)</u>	<u>14,574,410</u>
Tax Increment Finance - On behalf of payments from primary government:				
General Fund	163,863			163,863
Land Purchase Fund	<u>2,350,843</u>	<u> </u>	<u>(159,189)</u>	<u>2,191,654</u>
Total Tax Increment Finance	<u>2,514,706</u>	<u> </u>	<u>(159,189)</u>	<u>2,355,517</u>
Local Development Finance - On behalf of payments from primary government:				
General Fund	391,297			391,297
Land Purchase Fund	<u>3,812,082</u>	<u> </u>	<u>(194,204)</u>	<u>3,617,878</u>
Total Local Development Finance	<u>4,203,379</u>	<u> </u>	<u>(194,204)</u>	<u>4,009,175</u>
Total Commitment from Component Units	<u>\$ 22,832,964</u>	<u>\$</u>	<u>\$ (1,893,862)</u>	<u>\$ 20,939,102</u>

On August 12, 2002, the City Council approved a brownfield plan as recommended by the Brownfield Redevelopment Authority. Such plan proposes that eligible cleanup and infrastructure costs incurred by a developer will be reimbursed from captured incremental taxes. Such tax capture will be limited to fifty percent of the new taxes generated. The remaining incremental taxes will flow to the appropriate taxing authorities. As of June 30, 2007, the developer had incurred approximately \$15 million in costs. Reimbursement will be limited to the approved plans, as amended, currently \$9.8 million.

NOTE K--CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although City administration expects such amounts, if any, to be immaterial.

The City of Port Huron has received a demand letter from the Michigan Department of Environmental Quality for reimbursement of state costs related to the closed Ft. Gratiot Sanitary Landfill. The State of Michigan believes the City was one of multiple users of the landfill. The State proposes to allocate past and future response activity costs proportionally among the multiple users. The outcome of this matter is not presently determinable. The City administration has not been able to document significant usage of the landfill and does not believe that the City disposed of hazardous materials. The City administration expects that any liability subsequently determined will not have a material adverse effect on the City's financial condition.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorneys, the resolution of these matters will not have a material adverse effect on the City's financial condition.

NOTE L--POST-EMPLOYMENT HEALTH CARE BENEFITS

The City and its component units provide certain health care benefits for retired employees in accordance with bargaining group agreements and other requirements. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. The cost of retiree health care benefits is recognized as an expenditure as premiums are paid. For our 255 retirees, these costs total \$2,302,528. Under current accounting standards, the City is not required to record a liability for the future cost of post-employment health care benefits earned as of June 30,

2007. However, the Governmental Accounting Standards Board (GASB) recently issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The statement, which is effective for the year ending June 30, 2009, will require the City to recognize the cost of providing retiree healthcare coverage during the employee's working career, rather than when the premiums are paid. The City has set aside funds in the Fringe Benefit Fund to partially offset such liability.

NOTE M--EMPLOYEE RETIREMENT SYSTEMS

DESCRIPTION OF PLAN AND PLAN ASSETS

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25%, 2.50% or 2.75% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act No. 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. The Act assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case the authority rests with the City. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and by personnel policy for non-represented employees. The required employee contributions to MERS are based on their annual salary (from 0.0% to 6.71% depending on the employee's classification and bargaining unit). The City is required to contribute at an actuarially determined amount; the amount was \$2,238,704 for the year ended June 30, 2007 and is expected to be \$2,450,000 and \$2,650,000 for the years ending June 30, 2008, and 2009, respectively, based upon projected wages.

ANNUAL PENSION COST

During the fiscal year ended June 30, 2007 contributions totaling \$2,410,709 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The City contributed \$2,238,704 and employees contributed \$172,005. Gross payroll subject to MERS for the year ended June 30, 2007, was \$17,938,786. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 29 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. Such assumptions incorporate an estimate for long-term inflation of 3.0% to 4.0%. The actuarial value of plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. Unfunded actuarial accrued liability is amortized by a level percent of payroll contributions on an open amortization period over a twenty-nine year period, if applicable. Over-funding is amortized over a ten year open period.

THREE YEAR TREND INFORMATION

<u>Year Ended June 30.</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 1,891,407	100%	\$ 0
2006	2,155,501	100	0
2007	2,410,709	100	0

NOTE N--DEFERRED COMPENSATION PLAN

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City makes contributions into the plan on behalf of certain employees. The plan permits employees to defer a portion of their salary until future years. The plan is administered by unrelated financial institutions. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. It is the opinion of the City's legal counsel that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor.

NOTE O--RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property damage, contractors equipment, data processing, health care and employee dishonesty. The City participates in the Michigan Municipal Risk Management Authority program for general, auto, professional, public officials and errors and omissions liabilities. The City also participates in a third party administered retained risk program for workers compensation with reinsurance coverage provided for claims in excess of \$250,000. The City is uninsured for acts of god and environmental cleanup losses.

The component units of the City, including the Henry McMorran Memorial Auditorium Authority, are also included.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

The Michigan Municipal Risk Management Authority pool operates as a common risk - sharing management program for local units of government in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The City currently has a \$150,000 deductible for each and every loss on all lines of coverage. The risk pool's normal coverage will pay losses up to \$15,000,000 for liabilities and \$1,500,000 for vehicle physical damage. Any liability for losses which exceed this amount would remain with the City. Past experience indicates that incurred but not reported claims for either general liability or workers compensation, in aggregate, do not represent a material amount, however, such claims are considered as part of the estimated liability.

Changes in the estimated liabilities for claims for general liability and workers compensation are as follows:

	Year ended <u>June 30, 2007</u>	Year ended <u>June 30, 2006</u>
Estimated liability, beginning of year	\$ 1,089,948	\$ 970,828
Estimated claims incurred including changes in estimates	59,885	289,168
Claim payments	<u>(196,498)</u>	<u>(170,048)</u>
Estimated liability, end of year	<u>\$ 953,335</u>	<u>\$ 1,089,948</u>

NOTE P--COMMITMENTS

The City has entered into various construction contracts. Such contracts include sewer separation contracts necessary for the elimination of combined sewer overflows (CSO's), street resurfacing contracts including improvements of water distribution and wastewater collection systems and site improvement contracts necessary for the construction of infrastructure related to redevelopment. Several of such contracts were in progress but not completed as of June 30, 2007. The total contractual commitments outstanding as of June 30, 2007, aggregated approximately \$5,670,000. The City has sufficient funds available or has approved borrowings to cover these commitments.

NOTE Q--ENDOWMENT FUND TRANSFER

On January 22, 2007, the City Council approved the transfer of the Henry McMorran Memorial Auditorium Trust Fund to the Community Foundation of St. Clair County, subject to the terms of the original trust receipt for the endowment fund dated July 19, 1971. On March 14, 2007 the Henry McMorran Memorial Auditorium Authority board also approved the transfer. An agreement with the Community Foundation was entered into April 10, 2007. The transfer of the endowed principal balance and all accumulated income are shown as Special Item – Custodial Capital Transfer. The result is the elimination of the fund balance at June 30, 2007.

NOTE R--UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The new pronouncement provides guidance for local units of government in recognizing pollution remediation expenses and obligations to address current or potential detrimental effects of existing pollution. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

NOTE S--SUBSEQUENT EVENT

On October 22, 2007, the City Council approved the issuance and sale of General Obligation Limited Tax (LTGO) Bonds in order to refund Wastewater Fund LTGO Bonds, Series 2002. The City of Port Huron is expected to sell Wastewater Fund LTGO Refunding Bonds, Series 2007 in the amount of \$7.3 million when market conditions are appropriate.

FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

City of Port Huron participation in agent multiple-employer plan - Municipal Employees' Retirement System of Michigan (MERS) - schedule of funding progress.

REQUIRED SUPPLEMENTARY INFORMATION
AGENT MULTIPLE - EMPLOYER PLAN
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN (MERS)
SCHEDULE OF FUNDING PROGRESS

June 30, 2007

EXHIBIT B

The schedule of funding progress is as follows:
(Dollar amounts in thousands)

<u>Actuarial Valuation December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
1997	\$ 69,334	\$ 69,500	\$ 166	99.8%	\$ 13,553	1.2%
1998	75,285	74,356	(929)	101.2	14,271	(6.5)
1999	84,547	78,578	(5,969)	107.6	15,028	(39.7)
2000	90,780	89,185	(1,595)	101.8	14,986	(10.6)
2001	94,038	93,746	(292)	100.3	15,732	(1.9)
2002	92,849	98,060	5,211	94.7	16,577	31.4
2003	95,492	104,161	8,669	91.7	16,183	53.6
2004	97,583	111,867	14,284	87.2	17,521	81.5
2005	99,666	115,704	16,038	86.1	17,210	93.2
2006	103,053	121,765	18,712	84.6	17,466	107.1

FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The combined Nonmajor Special Revenue Funds are comprised of the following individual funds:

Rental Certification Fund - This fund records the activities under the rental housing certification program.

Law Enforcement Fund - Property forfeited to the City in connection with drug related activities and the enhanced 911 communications program are accounted for in this fund.

Rubbish and Garbage Collection Fund - This fund has been established to account for property tax revenues restricted for rubbish and garbage collection.

Cemetery Fund - This fund has been established to account for the operation of the City cemetery.

Loan Revolving Fund - This fund has been established to account for grants received from the Department of Housing and Urban Development. The grant proceeds were advanced to a local minority business for the purpose of acquiring fixed assets and to a developer to assist in the construction of rental property. Revenue, which will be recognized when the advance is repaid, is restricted for specific community projects in the City.

Community Development Block Grant Fund - This fund was established to account for grants received from the Department of Housing and Urban Development for residential and other capital improvements.

Home Fund - Grants received from the Department of Housing and Urban Development for housing and related programs are accounted for in this fund.

Neighborhood Rehabilitation Fund - This fund accounts for federal, state and other grants and private contributions to rehabilitate neighborhood property throughout the City.

Streetscape Maintenance Fund - This fund records the activity under the streetscape maintenance program.

Beautification Commission Fund - This fund was established to account for private donations that are used for beautification projects throughout the City.

PERMANENT FUNDS

Permanent Funds are used to account for assets that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the citizens of the City.

Cemetery Perpetual Care Fund - This endowment fund was established to invest the proceeds from the sale of burial plots and utilize the investment income in the operations of the City-owned cemetery.

McMorran Auditorium Trust (Auditorium) - Certain capital improvements associated with the Henry McMorran Memorial Auditorium Authority (component unit of the City) and financed by assets donated to the City are recorded in this endowment fund. The assets of this fund arose from donations to be used for the preservation, repair or replacement of the auditorium. Administration of the endowment fund was transferred to the Community Foundation of St. Clair County during the fiscal year.

City of Port Huron

NONMAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

June 30, 2007

EXHIBIT C

ASSETS	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
Assets:						
Cash and cash equivalents	\$ 26,165	\$ 638,267	\$ 1,379,605	\$ 169,410	\$	\$ 150
Investments						
Receivables	24,271		17,630		2,945,975	
Due from other governmental units		45,062				91,607
Due from other funds			122,749			
Total Assets	<u>\$ 50,436</u>	<u>\$ 683,329</u>	<u>\$ 1,519,984</u>	<u>\$ 169,410</u>	<u>\$ 2,945,975</u>	<u>\$ 91,757</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 3,319	\$ 18,453	\$ 128,865	\$ 3,063	\$	\$ 3,419
Accrued payroll			4,112	6,388		3,878
Contracts payable						
Taxes collected in advance			54,810			
Due to other funds						84,460
Unearned revenue		15,705			2,945,975	
Other liabilities						
Total Liabilities	<u>3,319</u>	<u>34,158</u>	<u>187,787</u>	<u>9,451</u>	<u>2,945,975</u>	<u>91,757</u>
Fund balances:						
Reserved for endowments						
Unreserved:						
Designated for subsequent years' expenditures			97,586			
Undesignated	47,117	649,171	1,234,611	159,959		
Total Fund Balances	<u>47,117</u>	<u>649,171</u>	<u>1,332,197</u>	<u>159,959</u>		
Total Liabilities and Fund Balances	<u>\$ 50,436</u>	<u>\$ 683,329</u>	<u>\$ 1,519,984</u>	<u>\$ 169,410</u>	<u>\$ 2,945,975</u>	<u>\$ 91,757</u>

Revenue Funds				Permanent Funds		Totals	
Home	Neighborhood Rehabili- tation	Streetscape Maintenance	Beauti- fication Commission	Cemetery Perpetual Care	Auditorium	June 30, 2007	June 30, 2006
\$ 3,815	\$	\$ 131,485	\$ 6,296	\$ 370,829	\$	\$ 2,726,022	\$ 2,301,173
				5,154,142		5,154,142	5,070,502
				34,621		3,022,497	3,028,725
95,861	42,267					274,797	268,016
						122,749	210,367
<u>\$ 99,676</u>	<u>\$ 42,267</u>	<u>\$ 131,485</u>	<u>\$ 6,296</u>	<u>\$ 5,559,592</u>	<u>\$ 0</u>	<u>\$ 11,300,207</u>	<u>\$ 10,878,783</u>
\$	\$	\$ 1,131	\$ 198	\$	\$	\$ 155,129	\$ 59,152
						17,697	17,537
99,676						99,676	
						54,810	25,143
	38,289					122,749	210,367
	3,978	11,613				2,977,271	2,981,131
				59,185		59,185	53,770
<u>99,676</u>	<u>42,267</u>	<u>12,744</u>	<u>198</u>	<u>59,185</u>		<u>3,486,517</u>	<u>3,347,100</u>
				5,500,407		5,500,407	5,191,744
		26,795	2,000			126,381	104,155
		91,946	4,098			2,186,902	2,235,784
		118,741	6,098	5,500,407		7,813,690	7,531,683
<u>\$ 99,676</u>	<u>\$ 42,267</u>	<u>\$ 131,485</u>	<u>\$ 6,296</u>	<u>\$ 5,559,592</u>	<u>\$ 0</u>	<u>\$ 11,300,207</u>	<u>\$ 10,878,783</u>

City of Port Huron

**NONMAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**

Year Ended June 30, 2007

EXHIBIT C-1

	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
Revenues:						
Taxes	\$	\$	\$ 2,034,936	\$	\$	\$
Grants		503,137				1,068,828
Charges for services	190,156	261,678		138,159		101,357
Investment income:						
Interest and dividends						
Net increase (decrease) in fair value of investments						
Total Revenues	<u>\$ 190,156</u>	<u>\$ 764,815</u>	<u>\$ 2,034,936</u>	<u>\$ 138,159</u>	<u>\$</u>	<u>\$ 1,170,185</u>
Expenditures:						
Current:						
Public safety	\$	\$ 268,638	\$	\$ 503,895	\$	\$
Public works			2,010,241			
General support services	204,458					162,937
Capital outlay		534,402		19,800		1,007,248
Total Expenditures	<u>204,458</u>	<u>803,040</u>	<u>2,010,241</u>	<u>523,695</u>	<u></u>	<u>1,170,185</u>
Revenue over (under) Expenditures	<u>(14,302)</u>	<u>(38,225)</u>	<u>24,695</u>	<u>(385,536)</u>	<u></u>	<u></u>
Other financing sources (uses):						
Transfers in				467,757		
Transfers out				<u>467,757</u>		
Special item:						
Custodial capital transfer						
Net Change in Fund Balances	(14,302)	(38,225)	24,695	82,221		
Fund balances at beginning of year	61,419	687,396	1,307,502	77,738		
FUND BALANCES AT END OF YEAR	<u>\$ 47,117</u>	<u>\$ 649,171</u>	<u>\$ 1,332,197</u>	<u>\$ 159,959</u>	<u>\$ 0</u>	<u>\$ 0</u>

Revenue Funds				Permanent Funds		Totals	
Home	Neighborhood Rehabili- tation	Streetscape Maintenance	Beauti- fication Commission	Cemetery Perpetual Care	Auditorium	June 30, 2007	June 30, 2006
\$	\$	\$	\$	\$	\$	\$ 2,034,936	\$ 1,973,664
239,679	145,779					1,957,423	2,120,690
12,100		70,456	2,054	36,130		812,090	989,714
				263,757	11,535	275,292	273,010
				472,533		472,533	(152,025)
<u>\$ 251,779</u>	<u>\$ 145,779</u>	<u>\$ 70,456</u>	<u>\$ 2,054</u>	<u>\$ 772,420</u>	<u>\$ 11,535</u>	<u>\$ 5,552,274</u>	<u>\$ 5,205,053</u>
\$	\$	\$	\$	\$	\$	\$ 268,638	\$ 408,847
		28,633				2,542,769	2,298,478
35,085	27,200		7,450			437,130	439,480
216,694	118,579					1,896,723	1,898,861
<u>251,779</u>	<u>145,779</u>	<u>28,633</u>	<u>7,450</u>			<u>5,145,260</u>	<u>5,045,666</u>
		41,823	(5,396)	772,420	11,535	407,014	159,387
			3,300			471,057	311,467
				(263,757)		(263,757)	(258,167)
			3,300	(263,757)		207,300	53,300
					(332,307)	(332,307)	
		41,823	(2,096)	508,663	(320,772)	282,007	212,687
		76,918	8,194	4,991,744	320,772	7,531,683	7,318,996
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 118,741</u>	<u>\$ 6,098</u>	<u>\$ 5,500,407</u>	<u>\$ 0</u>	<u>\$ 7,813,690</u>	<u>\$ 7,531,683</u>

City of Port Huron

**NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
Year Ended June 30, 2007

EXHIBIT C-2

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RENTAL CERTIFICATION:				
Revenues:				
Charges for services	\$ 182,917	\$ 182,917	\$ 190,156	\$ 7,239
Expenditures:				
Current:				
General support services	207,334	207,334	204,458	2,876
Revenues over (under) Expenditures	(24,417)	(24,417)	(14,302)	10,115
Fund balance at beginning of year	61,419	61,419	61,419	
FUND BALANCE AT END OF YEAR	\$ 37,002	\$ 37,002	\$ 47,117	\$ 10,115
LAW ENFORCEMENT:				
Revenues:				
Grants	\$ 200,000	\$ 650,000	\$ 503,137	\$ (146,863)
Charges for services	285,100	285,100	261,678	(23,422)
Total Revenues	485,100	935,100	764,815	(170,285)
Expenditures:				
Current:				
Public safety	165,076	315,076	268,638	46,438
Capital outlay	320,024	720,024	534,402	185,622
Total Expenditures	485,100	1,035,100	803,040	232,060
Revenues over (under) Expenditures		(100,000)	(38,225)	61,775
Fund balance at beginning of year	687,396	687,396	687,396	
FUND BALANCE AT END OF YEAR	\$ 687,396	\$ 587,396	\$ 649,171	\$ 61,775
RUBBISH AND GARBAGE COLLECTION:				
Revenues:				
Taxes	\$ 2,030,000	\$ 2,030,000	\$ 2,034,936	\$ 4,936
Expenditures:				
Current:				
Public works	2,011,328	2,011,328	2,010,241	1,087
Capital outlay	18,672	18,672		18,672
Total Expenditures	2,030,000	2,030,000	2,010,241	19,759
Revenues over (under) Expenditures			24,695	24,695
Fund balance at beginning of year	1,307,502	1,307,502	1,307,502	
FUND BALANCE AT END OF YEAR	\$ 1,307,502	\$ 1,307,502	\$ 1,332,197	\$ 24,695

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